

INVESTING IN **Ohio's** FUTURE

OFFICE OF BUDGET
AND MANAGEMENT

ANNUAL REPORT
FISCAL YEAR 2019

INTERNAL AUDIT



OBM INTERNAL AUDIT

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July 1, 2018 – June 30, 2019

Mission Statement:

OBM Internal Audit will provide independent, objective assurance and consulting activities designed to improve operations of state agencies obtaining Internal Audit services. Internal Audit will help these state agencies accomplish their objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Cindy Klatt, Chief Audit Executive

July 2019

The professional experts of OBM Internal Audit evaluate and improve the effectiveness of risk management across state government. The impact and outcomes of internal audits across the enterprise is often secured beyond workdays and fiscal years. With the mission in mind, Ohioans can be assured that efficient, effective initiatives and leaders are guarding our tax dollars and treasured assets.

Internal Audit Impact and Outcomes

IMPACT – a measure of influence Internal Audit was able to achieve with state agencies in their oversight.

Internal Audit positively impacted agencies in the following ways during fiscal year 2019:

- ✓ Provided internal audit services at 27 state agencies; one of these entities was not under Internal Audit's purview by statute and proactively requested Internal Audit's services.
- ✓ Completed 84 projects of 87 (97 percent) as identified in the updated 2019 Internal Audit annual audit plan. The remaining three will be completed during fiscal year 2020.
- ✓ Achieved a 95 percent favorable rating from client surveys received.
- ✓ Performed several value-added services including:
 - A review of security and privacy controls including access, change management, and system and information integrity for the State's enterprise digital channel for identity and user experience solutions.
 - Fiscal processes and controls, evaluations for grants administration, equipment purchases, and assignment and use of payment cards.
 - Documenting key processes to ensure controls exist to mitigate risks, ensure compliance with rules and regulations, and to identify opportunities to increase operational efficiency.
 - Evaluating the design of controls to manage data files in conformance with an agency's security policies and reviewed systems to determine whether rogue data files or applications existed.
 - Developed a risk assessment tool in coordination with an agency's leaders to identify and prioritize risk factors related to the agency objective of data and performance reporting.
 - Evaluated the business rules and application security controls within an agency's outward-facing system application.
 - IT asset utilization controls evaluations, including asset ordering strategies, tracking of depreciation and reporting, and use of service agreements and licenses.

OUTCOMES – a measurable change that has occurred within state agencies as a result of Internal Audit services provided.

Internal Audit engagements may result in observations with varying levels of associated risk. However, a measurable change does not occur until the observations are remediated by the agency to a low level of risk and validated by Internal Audit. During fiscal year 2019, 88 processes were improved and validated at 23 agencies through the process of remediating outstanding observations.

Internal Audit and the State Audit Committee

Ohio Revised Code §126.45 created Internal Audit within the Office of Budget and Management. The ORC also requires that Internal Audit conduct the internal audits of certain state agencies according to an annual plan and report the audits' observations and recommendations.

Additionally, Ohio Revised Code §126.46 established the State Audit Committee to review and comment on the annual internal audit plan prepared by Internal Audit. The purpose of the Committee is to assist the Governor and the Director of the Office of Budget and Management in fulfilling their oversight responsibilities in the areas of financial reporting, internal controls and risk assessment, audit processes, and compliance with laws, rules and regulations.

The State Audit Committee, which meets quarterly, is comprised of a chairperson appointed by the Governor; two public members appointed by the Speaker of the House of Representatives, one of which may be a person recommended by the minority leader of the House of Representatives; and two public members appointed by the President of the Senate, one of which may be a person recommended by the minority leader of the Ohio Senate. No more than two of the four members appointed by the President of the Senate and Speaker of the House shall belong to or be affiliated with the same political party.

Summarizing Fiscal Year 2019 Audit Activity

Internal Audit Reports and Remediation Activity – During fiscal year 2019, Internal Audit completed 55 assurance reports which resulted in 119 high or moderate risk observations. Of these observations, 20 were remediated by the client and validated by Internal Audit. Ninety-nine of the remaining observations are scheduled for remediation in fiscal year 2020. There are currently an additional 53 observations outstanding from assurance reports issued prior to fiscal year 2019.

Internal Audit completed eight assurance and consulting engagements that met the definition of a “Security Record” or “Infrastructure Record” per Ohio Revised Code § 149.433 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.

Internal Audit performs a combination of assurance and consulting engagements. Assurance audits provide an independent assessment on governance, risk management, and control processes for an agency. Consulting services are advisory in nature and provide value without Internal Audit assuming management responsibility. In fiscal year 2019, Internal Audit consulting services related to processes such as governance, succession planning, project management, new or emerging programs, enhancing internal controls and compliance, and providing advice on how to make processes more efficient. Consulting services consisted of 30 percent of overall audit effort in fiscal year 2019.

External Assessment – In accordance with the Institute of Internal Auditors’ Standards, Internal Audit is required to have an external party either conduct an assessment or review a self-assessment of Internal Audit’s internal audit activities. Internal Audit contracted with a CPA firm to perform an external assessment in fiscal year 2018. The overall result was reported that Internal Audit maintains the highest standards available as designated by “Generally Conforms” with the IIA Standards. Internal Audit continues to maintain conformance to the IIA’s Standards through its ongoing Quality Assurance and Improvement Plan via periodic internal assessments. Considerable efforts by Internal Audit management and staff have resulted in Internal Audit’s ability to maintain these professional standards. The next external assessment will be performed for Internal Audit activity completed in fiscal year 2023.

2019 Internal Audit Annual Plan - To develop the Fiscal Year 2019 Audit Plan, Internal Audit performed a risk analysis for the 26 state agencies in Internal Audit’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. With no enterprise risk management process in place for the State, Internal Audit collaborated with senior managers at each agency to better understand risks. To minimize the potential for duplication of effort and to maximize the amount of coverage achieved, Internal Audit considered other audits or related reviews performed by the Auditor of State, Bureau of Workers’ Compensation and Lottery Commission’s internal auditors, and reviews conducted by other external auditors.

Internal audit services can be provided to agencies outside of Internal Audit’s oversight upon request by the agency. The Ohio Department of Education chose to have Internal Audit perform internal audit services during fiscal year 2019 and will continue this relationship in fiscal year 2020.

Modifications to the plan occurred throughout the year and were discussed with the State Audit Committee in their quarterly meetings. The following table details Internal Audit’s planned and completed engagements from the 2019 Annual Plan:

State Agency	Planned Engagements	Completed Engagements
Adjutant General	1	1
Administrative Services	7	7
Aging	1	1
Agriculture	2	2
Budget and Management	2	2
Commerce	4	4
Developmental Disabilities	3	3
Development Services	3	3
Education**	3	4
Environmental Protection Agency	2	2
Health	4	4
Higher Education	2	2
Insurance	0	1
Job and Family Services	6	5
Lottery *	3	3
Medicaid	5	4
Mental Health and Addiction Services	3	3
Natural Resources	3	3
Opportunities for Ohioans with Disabilities	3	3
Public Safety	4	5
Public Utilities Commission	2	2
Rehabilitation and Correction	2	2
Taxation	4	4
Transportation	4	4
Veterans Services	1	1
Workers' Compensation *	7	7
Youth Services	2	2
Total	83	84

* Includes an Assurance Provider Review conducted by Internal Audit over the audit procedures performed by the internal audit staff at Lottery Commission and Workers' Compensation.

**Agency outside of Internal Audit's oversight which requested audit services.

Internal Audit's goal was to complete at least 85 percent of the 83 engagements originally documented in the 2019 Annual Plan. Through agency requests and shifting priorities, the audit plan was updated throughout the year with ten projects added and six projects deleted from the original plan, ending with 87 projects. As a result, Internal Audit completed 84 of 87 engagements (or 97 percent) in the updated fiscal year 2019 plan. The three engagements not completed were postponed to fiscal year 2020.

Client Surveys

Client Survey Results – Internal Audit sent out client surveys during fiscal year 2019 and received 89 responses. The responses are summarized below:

Survey Questions	Very Good	Good	Fair	Poor	Don't Know
1. Technical proficiency of Internal Audit auditors	59	25	3	0	2
2. Professionalism of internal auditors	80	8	1	0	0
3. Auditor knowledge of your business	40	35	12	1	1
4. Selection of important operational area	57	28	3	0	1
5. Pre-audit notification of purpose and scope	67	18	4	0	0
6. Timeliness of audit report	72	13	1	0	0
7. Value of audit recommendations	53	29	4	0	0
8. Effectiveness of Internal Audit management	64	22	1	0	2
9. Independence and objectivity of Internal Audit staff	71	17	1	0	0
Total	563	195	30	1	6

Internal Audit appreciates the feedback received from state agency clients and uses the results as a benchmark for effectiveness. Internal Audit strives to have at least 80 percent of the responses to be very good or good. Of the 89 client responses received, 758 of 795 question responses were favorable which resulted in a 95 percent favorable rating.

Internal Audit Staffing & Budget – Fiscal Year 2019

Internal Audit Staffing – Internal Audit’s actual staffing level for the fiscal year 2019 averaged 22 full-time equivalent employees.

Internal Audit Training and Certification – Internal Auditors receive an average of 40 hours of continuous professional education each year. In fiscal year 2019, Internal Audit staff obtained an average of 46 hours of training. In addition to the internal audit essentials training session attended by all auditors, noteworthy external training sessions attended in fiscal year 2019 were as follows:

Date	Course (Local Professional Chapter)	Internal Audit Attendees
Oct. 2018	Ohio Cybersecurity Day (IIA)	7
Oct. 2018	Professional Development Training (AGA)	7
Nov. 2018	Gaining the Edge – Internal Audit Innovation (IIA)	8
Jan. 2019	OMB Uniform Guidance Update (AGA)	5
May 2019	Central Ohio InfoSec Summit (ISSA)	7
May 2019	Auditor of State Fraud Conference	10

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

The following recognized professional certifications were held by Internal Audit staff in June 2019:

Certification	Licenses Held
Certified Public Accountant (CPA)	5
Certified Information Systems Auditor (CISA)	5
Certified Internal Auditor (CIA)	2
Certified Government Auditing Professional (CGAP)	5
Certified Fraud Examiner (CFE)	2

Internal Audit encourages professional certifications and would like at least 60 percent of our employees to have a recognized professional certification. Several Internal Audit employees possess multiple certifications and 14 of 25 (56 percent) maintained at least one designation during fiscal year 2019.

Internal Audit Budget – Internal Audit is required to recover its costs pursuant to Ohio Revised Code §126.45. Internal Audit was able to recover its costs in fiscal year 2019 with a combination of direct agency billings and centralized payroll charges. The following schedule reflects the fiscal year 2019 budget and actual expenditures as of June 30, 2019:

Category	Budget	Actual Expenditures and Encumbrances (cash basis)	Variance
Expenditures:			
Payroll	\$3,091,374	\$3,014,402	\$ 76,972
Purchased Personal Services	30,000	26,923	3,077
Maintenance/Supplies	185,000	179,631	5,369
Equipment/Software	500	0	500
Total Expenditures (unaudited)	\$3,306,874	\$3,220,956	\$85,918

Fiscal Year **2019** Annual Report

INTERNAL AUDIT

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Ohio

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Jon Husted, Lt. Governor

Office of Budget
and Management

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