

I N V E S T I N G I N

Ohio's FUTURE



OFFICE OF BUDGET AND MANAGEMENT

ANNUAL REPORT FISCAL YEAR 2020

Internal Audit

Mike DeWine, Governor

Jon Husted, Lt. Governor

Kimberly Murnieks, Director

OBM Internal Audit Fiscal Year 2020 Annual Report

July 1, 2019 – June 30, 2020

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
Ohio Office of Budget and Management | Chief Audit Executive

July 2020



The OBM Office of Internal Audit provides an independent review of the activities for agencies under their purview and recommends ways to strengthen management practices. Internal Audit's procedures align with the *Standards* established by the Institute of Internal Auditors.

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 2020:

- ✓ Provided internal audit services at 28 state agencies; two of these entities were not under Internal Audit's purview by statute and proactively requested Internal Audit's services.
- ✓ Completed 73 projects of 84 (87 percent) as identified in the updated 2020 Internal Audit annual audit plan. The remaining 11 will be completed during fiscal year 2021.
- ✓ Achieved a 95 percent favorable rating from client surveys received.
- ✓ Performed several value-added services including:
 - An evaluation of the design of controls over billing and collection processes for goods and services and inventory control processes for an agency's vehicle service facilities.
 - A review of the controls over the collection and distribution of court fines and to identify opportunities for improvement.
 - An evaluation of the design and effectiveness of monitoring controls over interagency agreements with other state agencies to ensure compliance and due diligence.
 - A review of the internal controls over various agency processes such as data sharing, reporting, decision making and distribution of staff to ensure the agency's objectives are being met in the most efficient manner.
 - An evaluation of the design and effectiveness of controls within a funding distribution process, including allocation and payments, as well as the monitoring controls to ensure funds were appropriately utilized.
 - A review of the design of controls over software and hardware asset lifecycle management in order to strengthen internal controls and improve business operations.
 - Reviews of agency client files to validate data within a licensure and certification information system and recommending methods to improve agency processes.

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

Internal Audit engagements result in observations with varying levels of associated risk. 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 2020, 93 processes were improved and validated at 22 agencies by 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 2020 Audit Activity

Internal Audit Reports and Remediation Activity – During fiscal year 2020, Internal Audit completed 40 assurance reports which resulted in 56 high or moderate risk observations. Of these observations, 10 were remediated by the client and validated by Internal Audit. Of the 56 observations, three related to the Ohio Department of Job and Family Services and were closed due to the agency's desire to accept the risk for not addressing the observations. The 43 remaining observations are scheduled for remediation in fiscal year 2021. An additional 55 observations are outstanding from assurance reports issued prior to fiscal year 2020. The Ohio Department of Job and Family Services documented acceptance of risk for not implementing one observation from a fiscal year 2017 engagement and three observations from a fiscal year 2018 engagement, thus those observations were closed and are not included in the 55 observations from prior fiscal years.

Internal Audit completed 11 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 2020, Internal Audit consulting services related to processes such as governance, succession planning, contingency planning, incident response, coordination of IT security processes, new or emerging programs, enhancing internal controls and compliance, and providing advice on how to make processes more efficient. Consulting services consisted of 44 percent of overall audit effort in fiscal year 2020.

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.

2020 Internal Audit Annual Plan - To develop the Fiscal Year 2020 Audit Plan, Internal Audit performed an enterprise-wide 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. Internal Audit collaborated with senior managers at each agency to better understand their respective 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 2020 and will continue this relationship in fiscal year 2021. There were also two engagements planned for the Ohio Facilities Construction Commission, with one completed and one carried forward to fiscal year 2021.

As discussed with the State Audit Committee in their quarterly meetings, modifications to the fiscal year 2020 Annual Plan occurred throughout the year as depicted in the following table:

State Agency	Planned Engagements	Completed Engagements
Adjutant General	1	1
Administrative Services	7	3
Aging	1	0
Agriculture	3	3
Budget and Management	2	2
Commerce	5	1
Developmental Disabilities	3	3
Development Services	3	2
Education**	5	5
Environmental Protection Agency	2	1
Facilities Construction Commission**	2	1
Health	4	3
Higher Education	2	2
Insurance	2	1
Job and Family Services	7	6
Lottery *	4	2
Medicaid	6	3
Mental Health and Addiction Services	3	4
Natural Resources	3	2
Opportunities for Ohioans with Disabilities	3	3
Public Safety	5	4
Public Utilities Commission	2	2
Rehabilitation and Correction	3	3
Taxation	4	3
Transportation	4	4
Veterans Services	2	2
Workers' Compensation *	6	5
Youth Services	2	2
Total	96	73

* 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 86 percent of the 96 engagements originally documented in the 2020 Annual Plan. Through agency requests and shifting priorities, the audit plan was updated throughout the year with ten projects added and 22 projects removed from the original plan, ending with 84 projects. Internal Audit completed 73 of 84 engagements (or 87 percent) in the updated fiscal year 2020 plan.

Regarding the removed projects, four of these were omitted from the fiscal year 2020 plan as a result of the COVID-19 pandemic and six were delayed for various reasons; these 10 projects will be included in the fiscal year 2021 plan. The 11 engagements that were not completed in fiscal year 2020, four of which were affected by the COVID-19 pandemic, will be completed in fiscal year 2021.

One project originally scheduled in Internal Audit's fiscal year 2019 audit plan and carried forward to the fiscal year 2020 plan was for the Ohio Department of Commerce. The Securities Enforcement assurance audit was removed from the fiscal year 2020 plan per the agency's request and Commerce instead accepted the risk of Internal Audit not performing the audit.

Client Surveys

Client Survey Results – Internal Audit sent out client surveys during fiscal year 2020 and received 78 responses. The responses are summarized below:

Survey Questions	Very Good	Good	Fair	Poor	Don't Know
1. Technical proficiency of Internal Audit auditors	58	18	2	0	0
2. Professionalism of internal auditors	72	6	0	0	0
3. Auditor knowledge of your business	40	30	8	0	0
4. Selection of important operational area	50	24	4	0	0
5. Pre-audit notification of purpose and scope	57	18	3	0	0
6. Timeliness of audit report	66	10	2	0	0
7. Value of audit recommendations	49	22	3	2	1
8. Effectiveness of Internal Audit management	59	13	2	2	2
9. Independence and objectivity of Internal Audit staff	63	11	1	2	1
Total	514	152	25	6	4

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 78 client responses received, 666 of 701 question responses were favorable which resulted in a 95 percent favorable rating. Any poor ratings are evaluated by Internal Audit management for the development of improvement activities.

Internal Audit Staffing & Budget – Fiscal Year 2020

Internal Audit Staffing – Internal Audit’s staffing level for the fiscal year 2020 averaged 23 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 2020, Internal Audit staff obtained an average of 43 hours of training. Noteworthy external training sessions attended in fiscal year 2020 were as follows:

Date	Course (Local Professional Chapter)	Internal Audit Attendees
Oct. 2019	Performing Effective Cybersecurity Risk Assessment & Audits (ISACA)	5
Oct. 2019	Professional Development Training (AGA)	6
Nov. 2019	Gaining the Edge – Internal Audit Innovation (IIA)	5
March 2020	Risky Business: Conducting Remote Audits in Uncertain Times (AICPA)	8
March 2020	Social Distancing and Internal Audit (IIA)	8
May 2020	A Post-COVID World/What’s the Risk (IIA)	5

(AGA): Association of Government Accountants; (IIA): Institute of Internal Auditors; (AICPA): American Institute of CPAs and (ISACA): Information Systems Audit and Control Association

The following recognized professional certifications were held by Internal Audit staff in June 2020:

Certification	Licenses Held
Certified Public Accountant (CPA)	5
Certified Information Systems Auditor (CISA)	5
Certified Internal Auditor (CIA)	3
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 20 (70 percent) maintained at least one designation during fiscal year 2020.

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 2020 with a combination of direct agency billings and centralized payroll charges. The following schedule reflects the fiscal year 2020 budget and actual expenditures as of June 30, 2020:

Category	Budget	Actual Expenditures and Encumbrances (cash basis)	Variance
Expenditures:			
Payroll	\$3,495,385	\$2,968,520	\$526,865
Purchased Personal Services	111,443	18,387	93,056
Maintenance/Supplies	192,158	181,780	10,378
Equipment/Software	488	0	488
Total Expenditures (unaudited)	\$3,799,474	\$3,168,687	\$630,787



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August 1, 2020

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