



Ohio

**Office of Budget
and Management**

Internal Audit
Fiscal Year 2021
Annual Report

Mike DeWine, Governor

Jon Husted, Lt. Governor

Kimberly Murnieks, Director

OBM Internal Audit Fiscal Year 2021 Annual Report

July 1, 2020 – June 30, 2021

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 2021



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 and the State Audit Committee

Ohio Revised Code §126.45 created Internal Audit within the Office of Budget and Management. The ORC requires internal audits of certain state agencies to be conducted according to an annual plan. ORC §126.46 established the State Audit Committee to review and comment on the annual internal audit plan. The Committee assists the Governor and the Director of the Office of Budget and Management with fulfilling 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.

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 2021:

- ✓ Provided internal audit services at 29 state agencies; three of these entities were not under Internal Audit's purview by statute and proactively requested Internal Audit's services.
- ✓ Completed 66 projects of 68 (97 percent) as identified in the updated 2021 Internal Audit annual audit plan. The remaining projects will be completed during fiscal year 2022.
- ✓ Achieved a 96 percent favorable rating from client surveys received.
- ✓ Performed several value-added services including:
 - A review of the design of controls over teleworking and mobile device management to strengthen internal controls and improve business operations.
 - An evaluation of the design of controls over liquidated damage processes to ensure damages are identified completely, accurately, and timely.
 - Validation of the completeness and accuracy of agency lease information for GASB 87 implementation.
 - An evaluation of controls over COVID-related grants processes.

- An evaluation of the design of controls over an agency's IT contingency processes to implement effective and efficient processes and procedures for the agency IT contingency plan.
- A review of the internal controls over the tracking and monitoring of software licenses to identify opportunities for improvement.
- An evaluation and prioritization of agency-wide succession efforts based on planned/eligible departures, procedures, and documentation for continuity of critical functions.
- Reviews of the controls over onboarding, offboarding, and monitoring of agency application access to identify any weaknesses that could jeopardize agency applications and data.
- A review of the controls over grant awarding and eligibility determination processes and recommending opportunities for improvement.

OUTCOMES – a measurable change that has occurred within state agencies because 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 2021, 73 processes were improved and validated at 19 agencies by remediating outstanding observations.

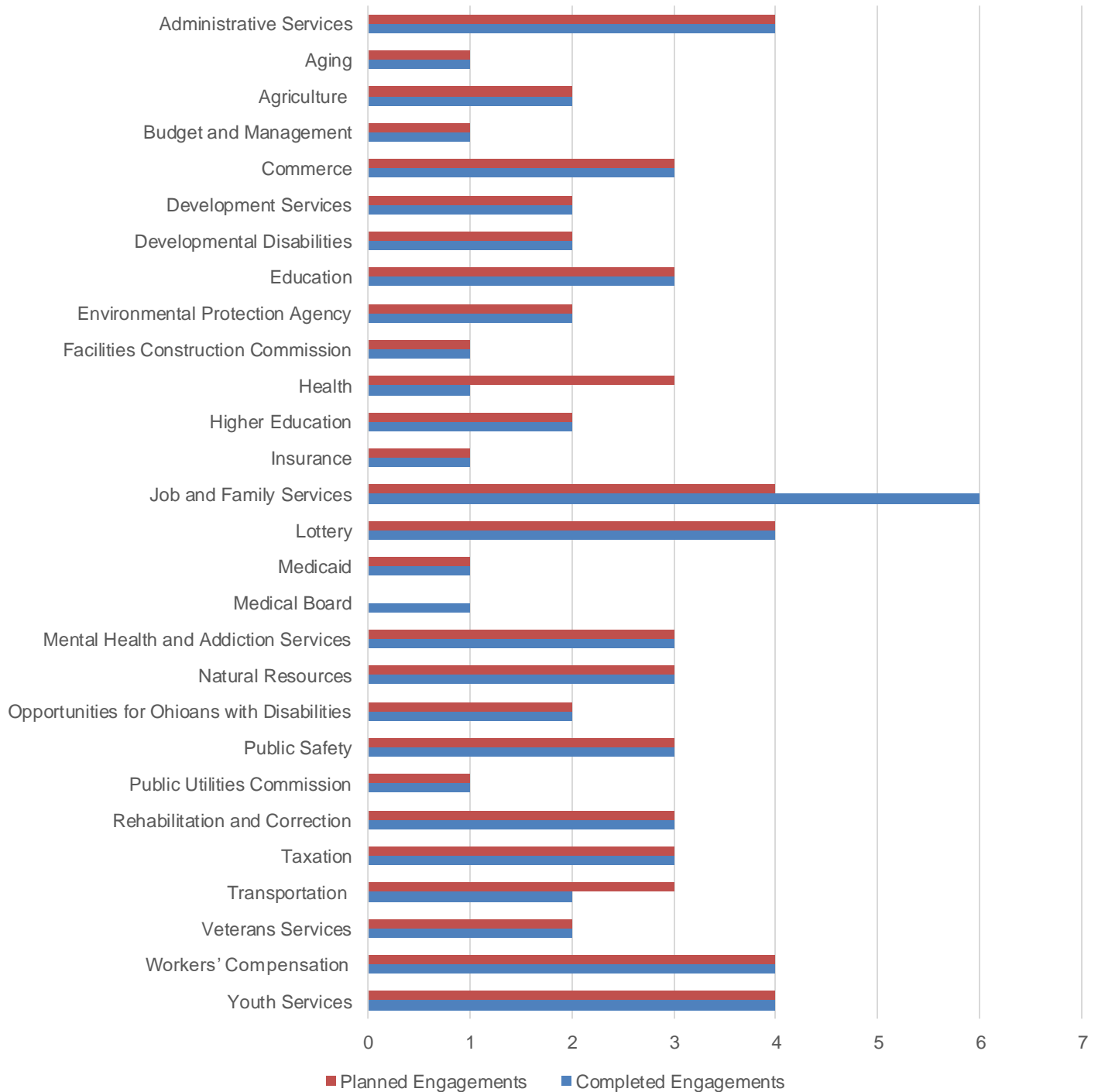
Summarizing Fiscal Year 2021 Audit Activity

2021 Internal Audit Annual Plan - To develop the Fiscal Year 2021 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 was 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 management 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 2021 and will continue this relationship in fiscal year 2022. Additionally, Internal Audit completed one engagement for the Ohio Facilities Construction Commission and one engagement for the Ohio Medical Board.

As discussed with the State Audit Committee in their quarterly meetings, modifications to the fiscal year 2021 Annual Plan occurred throughout the year as depicted in the following chart:

Planned and Completed Engagements



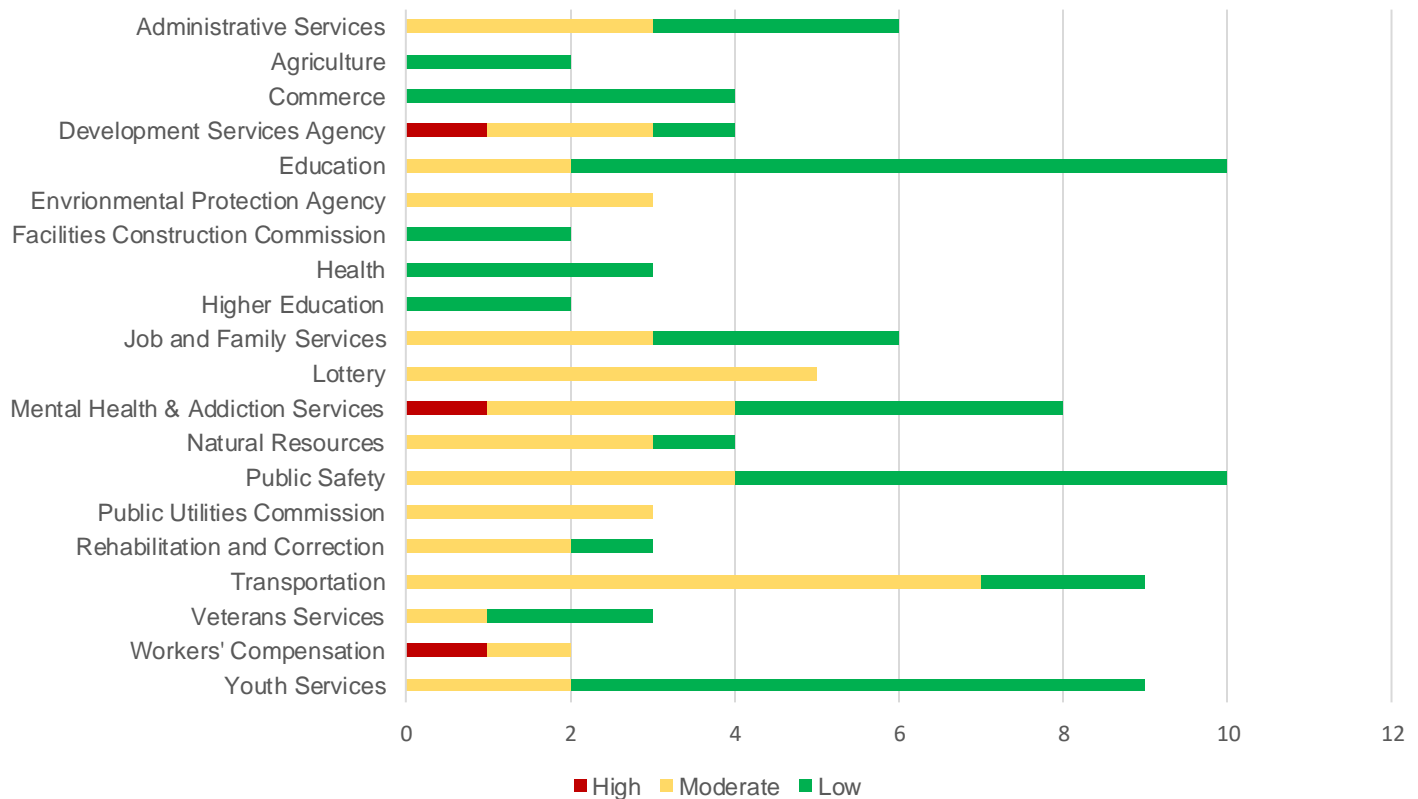
Internal Audit's goal was to complete at least 91 percent of the 67 engagements originally documented in the 2021 Annual Plan. Through agency requests and shifting priorities, the audit plan was updated throughout the year with nine projects added and eight projects removed from the original plan, ending with 68 projects. Internal Audit completed 66 of 68 engagements (or 97 percent) in the updated fiscal year 2021 plan.

Regarding the eight removed projects, three of these were omitted from the fiscal year 2021 plan due to agencies redirecting their resources on other priorities, given the challenges from the COVID-19 pandemic; two were removed due to an audit approach change, and three were deferred to fiscal year 2022. The two engagements that were not completed in fiscal year 2021 will be completed in early fiscal year 2022.

Internal Audit Reports and Remediation Activity – 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 2021, Internal Audit consulting services related to processes such as governance, succession planning, contingency planning, IT security controls (including teleworking controls), data privacy, 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 49 percent of overall audit effort in fiscal year 2021.

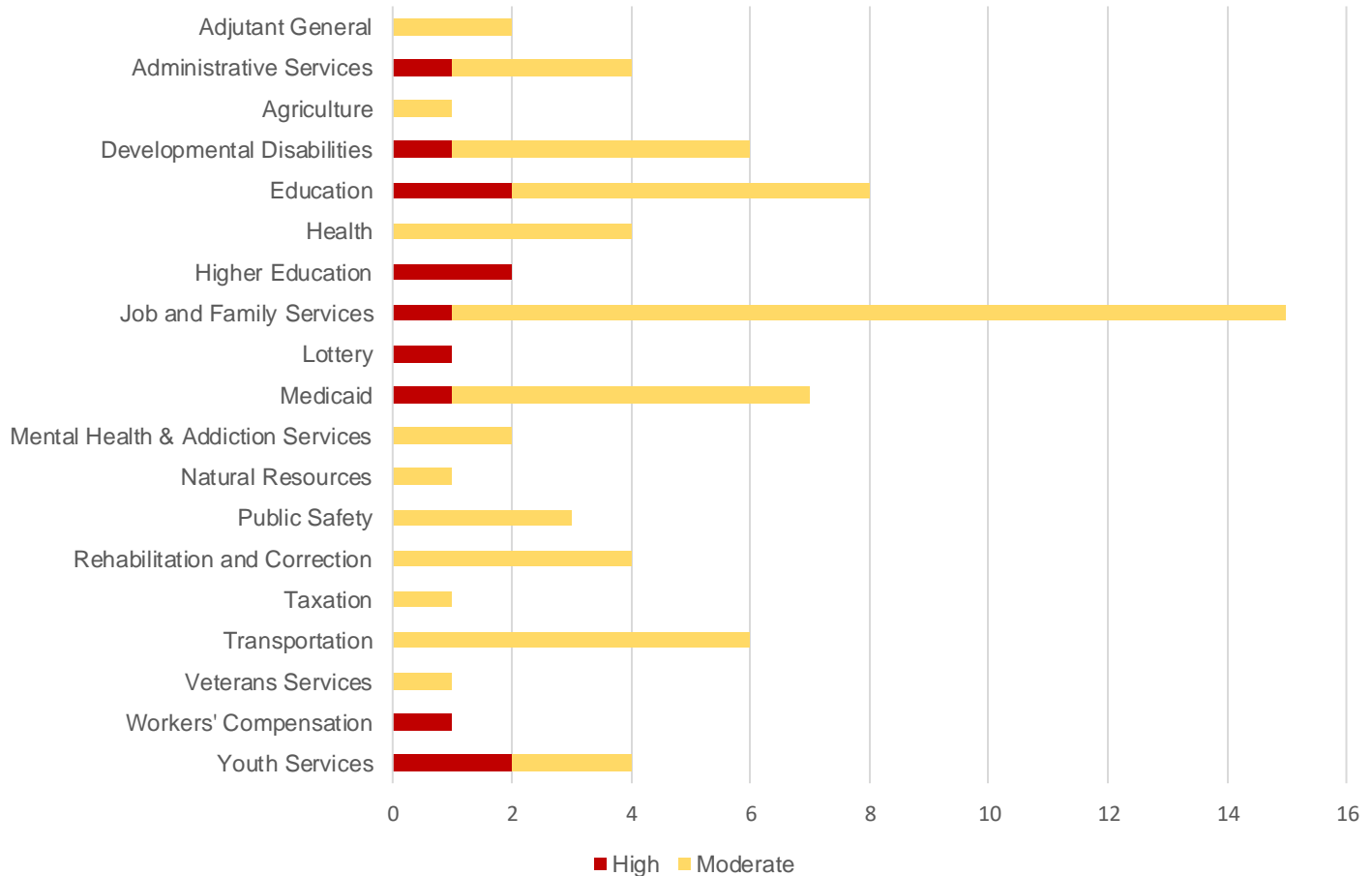
During fiscal year 2021, Internal Audit completed 31 assurance reports which resulted in 47 high or moderate risk observations. As is evidenced by the following table, the majority (52%) of observations in fiscal year 2021 were categorized as low risk. Of the moderate or high risk observations, nine were remediated by the client and validated by Internal Audit. The 38 remaining observations are scheduled for remediation in fiscal year 2022. An additional 35 observations remain outstanding from assurance reports issued prior to fiscal year 2021 as agencies continue to work towards resolution. Low risk observations are communicated to management but are not tracked for remediation by Internal Audit.

FY 2021 Observations and Level of Risk



Observations Closed in FY 2021

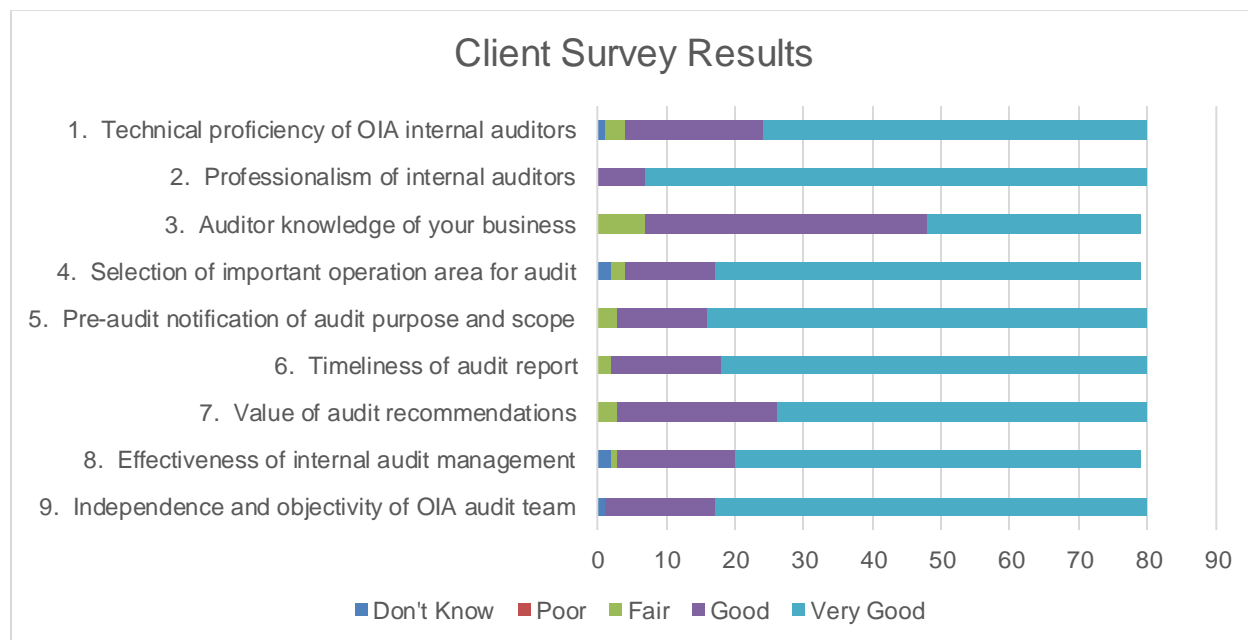
(includes current and prior year observations)



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 2022.

Client Surveys

Client Survey Results – Continuing established practice, Internal Audit conducted a client survey during fiscal year 2021. Eighty completed responses were received, and the results are summarized below:



Internal Audit uses survey data and results to benchmark effectiveness. Internal Audit strives to achieve favorable “good” or “very good” ratings on at least 80 percent of the responses across the nine survey focus areas covered in the survey. Of the 80 client responses received, which represented feedback on 74.2% of the engagements performed, Internal Audit received a 96 percent favorable rating. Any poor ratings are evaluated by Internal Audit management for the development of improvement activities. During fiscal year 2021, no “poor” ratings were received.

Internal Audit Staffing & Budget – Fiscal Year 2021

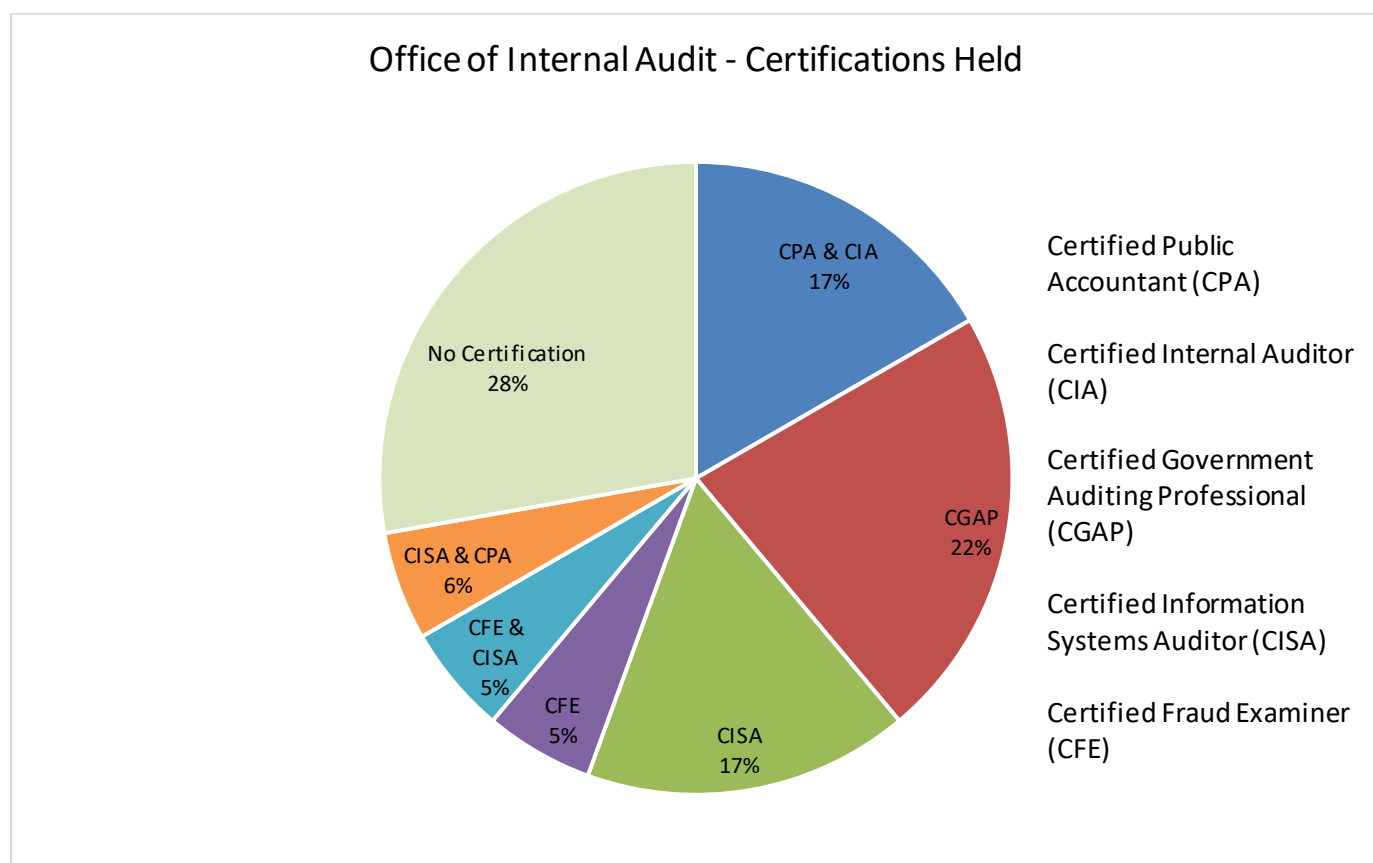
Internal Audit Staffing – Internal Audit’s staffing level for the fiscal year 2021 averaged 18 full-time equivalent employees.

Internal Audit Training and Certification – Internal Auditors receive an average of 40 hours of continuous professional education each year. In fiscal year 2021, each member of the Internal Audit staff averaged 51 hours of training. Noteworthy external training sessions attended in fiscal year 2021 were as follows:

Date	Course (Local Professional Chapter)	Internal Audit Attendees
Aug. 2020	All Roads Lead to Risk (ISACA)	4
Aug. 2020	Advancing Audits Using Data Analytics (IIA)	5
Oct. 2020	InfoSec Summit (ISSA)	6
Oct. 2020	Professional Development Training (AGA)	5
Oct. 2020	Gaining the Edge – Internal Audit Innovation (IIA)	8
April 2021	Certified Information Systems Auditor Boot Camp (ISACA)	4

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

The following recognized professional certifications were held by Internal Audit staff as of June 2021:



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 13 of 18 (72 percent) maintained at least one designation during fiscal year 2021.

Internal Audit Budget – Internal Audit is required to recover costs pursuant to Ohio Revised Code §126.45. Internal Audit was able to recover its costs in fiscal year 2021 primarily with centralized payroll charges. The following schedule reflects the fiscal year 2021 budget and actual expenditures as of June 30, 2021:

Category	Budget	Actual Expenditures and Encumbrances (cash basis)	Variance
Expenditures:			
Payroll	\$2,600,000	\$2,445,069	\$154,931
Purchased Personal Services	25,000	2,110	22,890
Maintenance/Supplies	186,000	133,128	52,872
Total Expenditures (unaudited)	\$2,811,000	\$2,580,307	\$230,693

Annual Report Fiscal Year 2021

This annual report is published by the Ohio Office of Budget and Management's Internal Audit Department, pursuant to Ohio Revised Code Section 126.47(E).

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