



**Mike DeWine**, Governor  
**Jon Husted**, Lt. Governor

**Office of Budget  
and Management**

**Kimberly Murnieks**, Director

# Internal Audit

## Annual Report FY 2022

# OBM Internal Audit FY 2022 Annual Report

*July 1, 2021 – June 30, 2022*

## **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 2022*



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 FY 2022:

- 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 46 projects of 51 (90 percent) as identified in the updated 2022 Internal Audit annual audit plan. The remaining projects will be completed during FY 2023.
- Achieved a 97 percent favorable rating from client surveys received.

- ✓ OBM Internal Audit staff performed several value-added services including:
  - Evaluation of the design and effectiveness of controls implemented over the pandemic unemployment assistance processes.
  - An evaluation of agency procedures for mission-critical tasks, functions, and applications for accuracy and completeness, identifying individuals responsible for key tasks and initiatives.
  - An assessment of the adequacy of an agency's proposed data governance program and their associated draft policy and processes.
  - An evaluation of the design of an agency's monthly general ledger accounting functions to enhance operational efficiency and the use of the vendor application.
  - A review of the internal controls and efficiencies associated with an agency's IT change management process, including the standard and emergency change requests.
  - Assessment of the design of vendor risk assessment processes to identify, assess, treat, and monitor risks involved with third party contracts.
  - An evaluation of the design of controls over an agency's IT security areas involving risk assessments, incident response, and contingency planning and assessing for adequacy.

**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 FY 2022, 51 processes were improved and validated at 18 agencies by remediating outstanding observations.

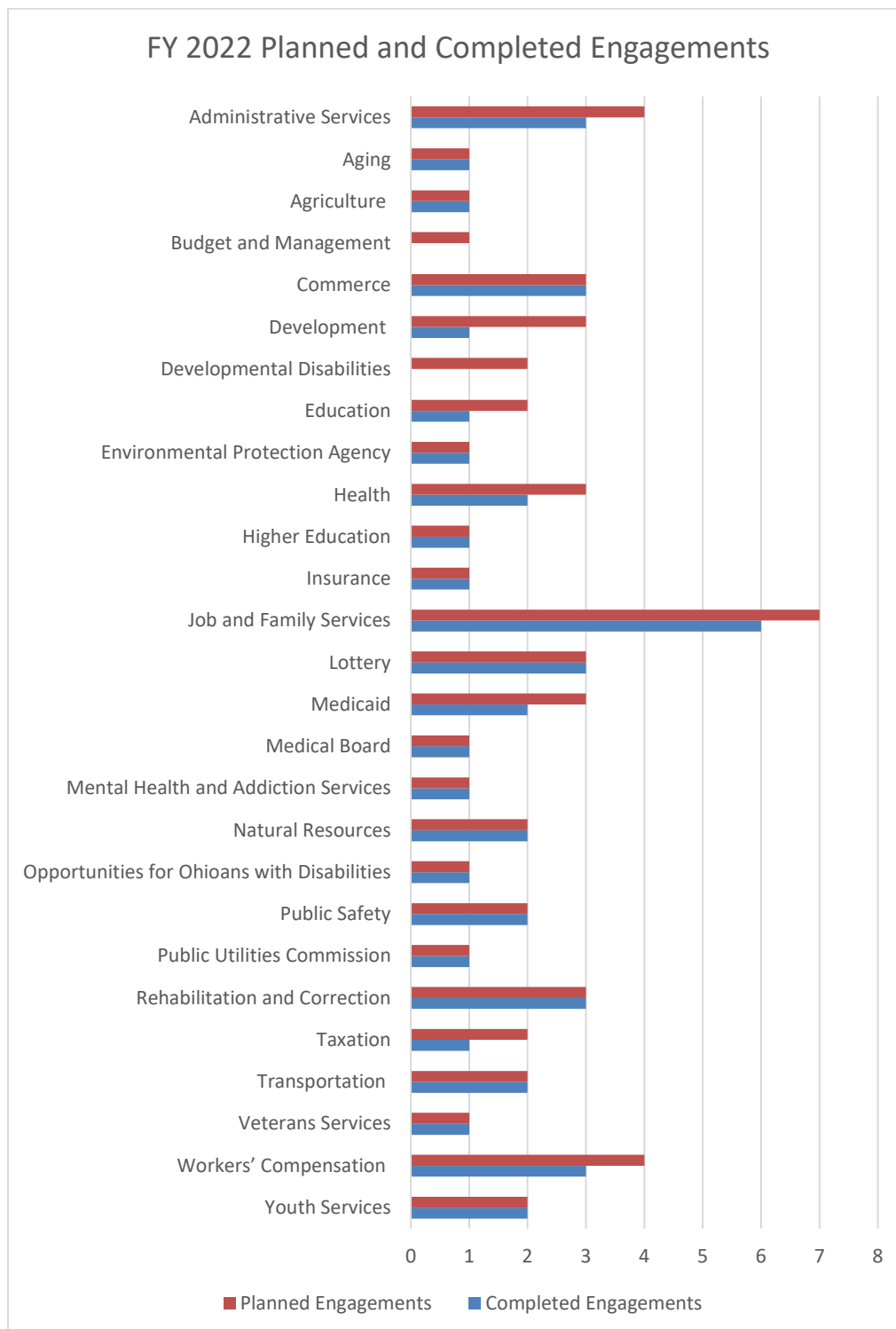
## Summarizing FY 2022 Audit Activity



**2022 Internal Audit Annual Plan** - To develop the FY 2022 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 FY 2022 and will continue this relationship in FY 2023. Additionally, Internal Audit completed an engagement for the Ohio Medical Board.

As discussed with the State Audit Committee during quarterly meetings, modifications to the FY 2022 Annual Plan occurred throughout the year as depicted in the following chart:



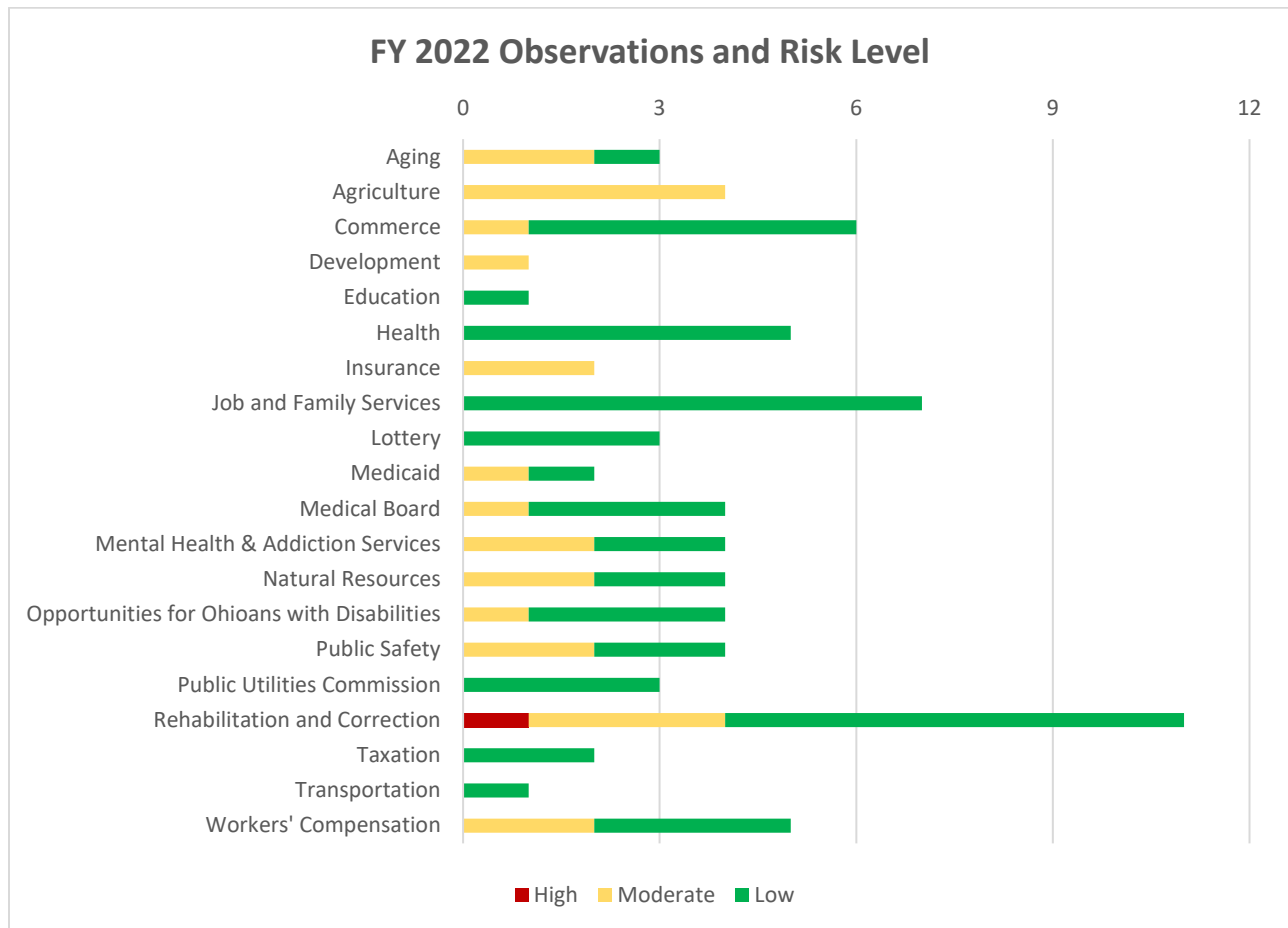
Internal Audit's goal was to complete at least 94 percent of the 58 engagements originally documented in the 2022 Annual Plan. Through agency requests and shifting priorities, the audit plan was updated throughout the year with four projects added and 11 projects removed from the

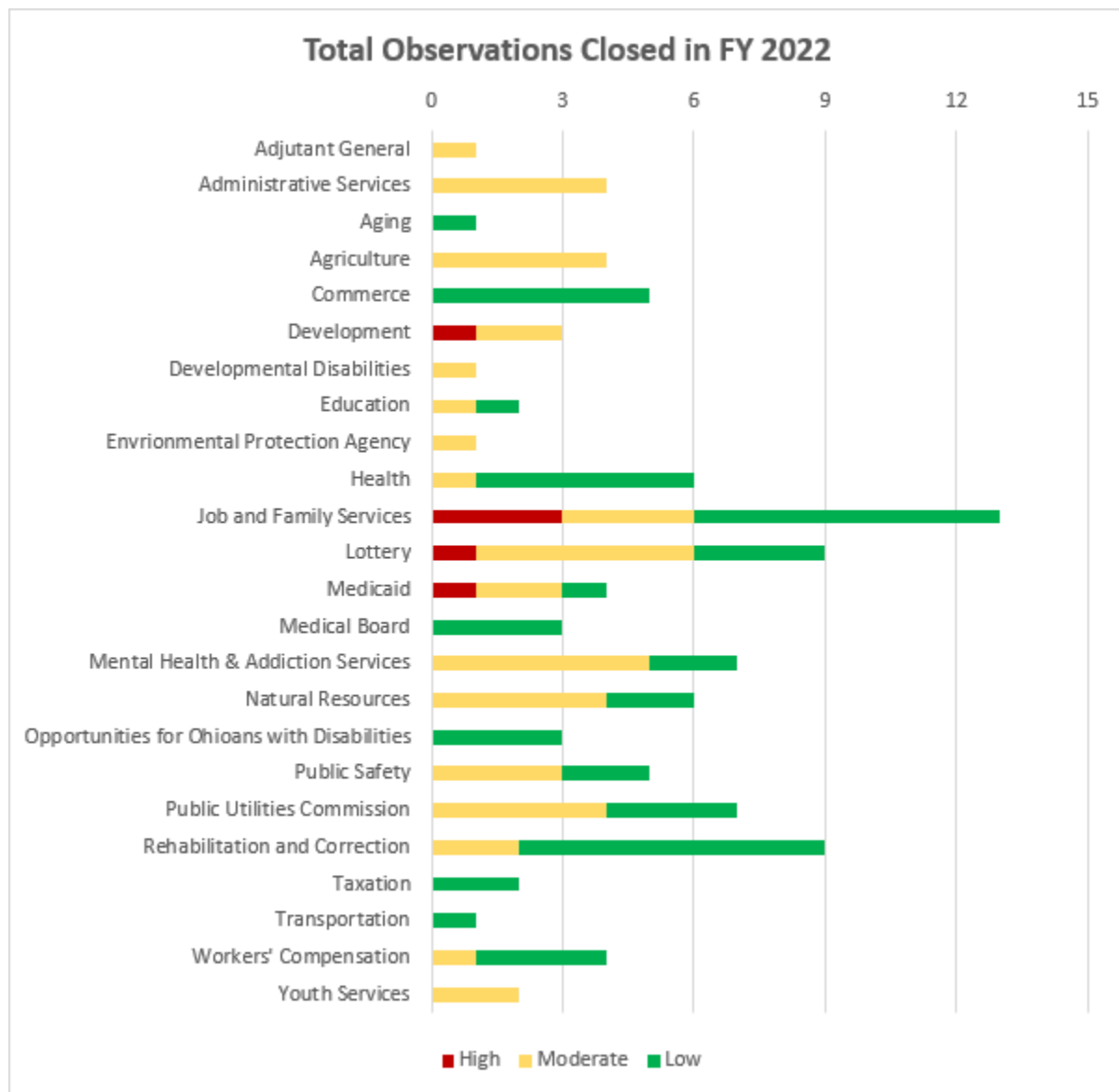
original plan, ending with 51 projects. Internal Audit completed 46 of 51 engagements (or 90 percent) in the updated FY 2022 plan. The five engagements that were not completed in FY 2022 will be completed in early FY 2023.

Regarding the 11 removed projects, four were omitted from the FY 2022 plan to prevent duplication of effort with other audits, four were removed due to an audit approach change, and three were deferred to FY 2023.

**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 FY 2022, Internal Audit's consulting services related to processes such as third-party risk management, data governance, succession planning, IT security controls, pandemic-related programs, IT change management, new or emerging programs, enhancing internal controls and compliance, and providing advice on how to make processes more efficient. Consulting services consisted of 39 percent of overall audit effort in FY 2022.

During FY 2022, Internal Audit completed 26 assurance reports which resulted in 25 high or moderate risk observations. As is evidenced by the following table, the majority (67%) of observations in FY 2022 were categorized as low risk. Of the moderate or high-risk observations, four were remediated by the client and validated by Internal Audit. The 21 remaining observations are scheduled for remediation in FY 2023. An additional 27 observations remain outstanding from assurance reports issued prior to FY 2022 as agencies continue to work towards resolution. Low risk observations are communicated to management but are not tracked for remediation by Internal Audit.

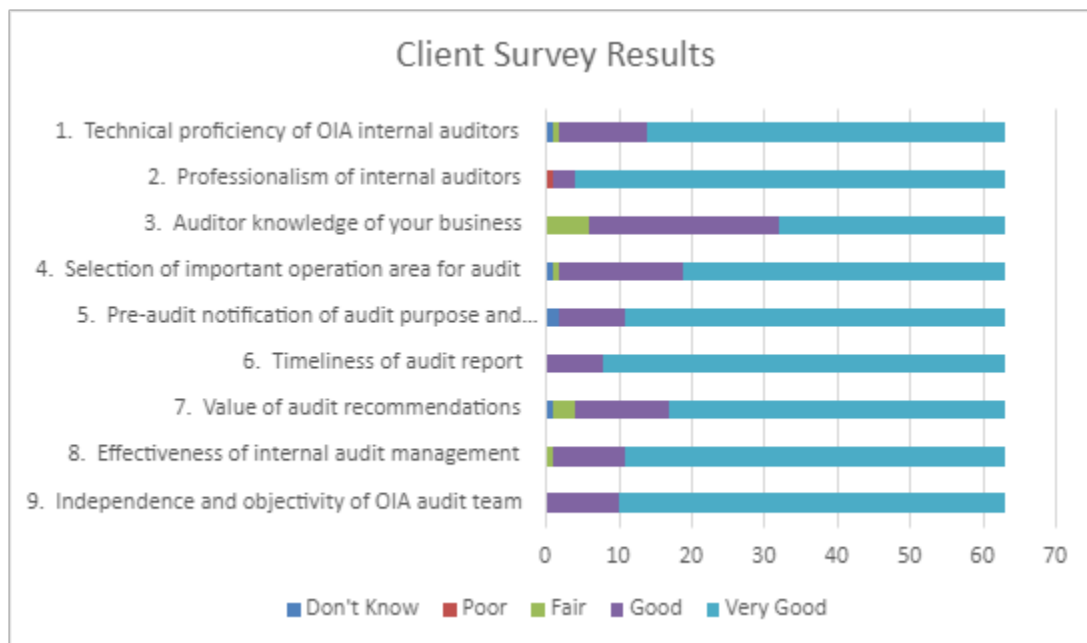




**External Assessment** – In accordance with the Institute of Internal Auditors’ *Standards*, Internal Audit is required to have an external party either conduct an assessment or review a self-assessment of Internal Audit’s internal audit activities. Internal Audit contracted with a CPA firm to perform an external assessment in FY 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 in FY 2023 for Internal Audit activity completed in FY 2022.

## Client Surveys

**Client Survey Results** – Continuing established practice, Internal Audit conducted a client survey during FY 2022. Sixty-three 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 63 client responses received, which represented feedback on 76 percent of the engagements performed, Internal Audit received a 97 percent favorable rating. All poor ratings are evaluated by Internal Audit management for the development of improvement activities.

## Internal Audit Staffing & Budget – FY 2022

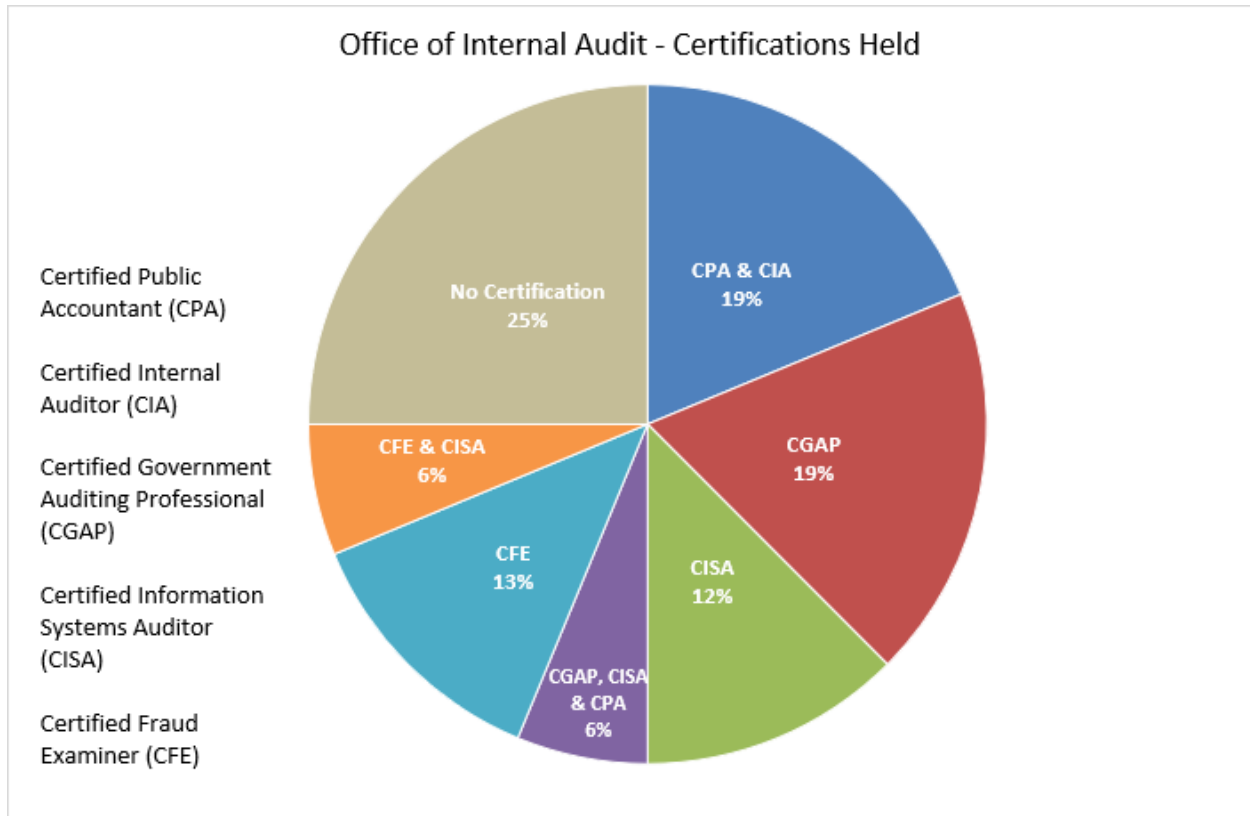
**Internal Audit Staffing** – Internal Audit’s staffing level for the FY 2022 averaged 14 full-time equivalent employees.

**Internal Audit Training and Certification** – Each OBM Internal Auditor completes an average of 40 hours of continuous professional education each year. In FY 2022, each member of the Internal Audit staff averaged 44 hours of training. Noteworthy external training sessions attended in FY 2022 were as follows:

Date	Course	Internal Audit Attendees
Sept. 2021	Introduction to Cloud Security & Stopping Ransomware	5
Sept. 2021	Auditing Cybersecurity Operations (IIA)	6
Nov. 2021	8 <sup>th</sup> Annual IT Hacking Conference (IIA/ISACA)	4
Nov. 2021	Gaining the Edge – Internal Audit Innovation (IIA)	9
Jan. 2022	Internal Audit Structure and Transformation	4
Mar. 2022	Women in Audit Panel Discussion (IIA)	5
May 2022	Emerging Trends in Fraud Investigation and Prevention (AFCE)	9

(IIA): Institute of Internal Auditors; (ISACA): Information Systems Audit and Control Association; (ACFE): Association of Certified Fraud Examiners

The following recognized professional certifications were held by Internal Audit staff as of June 2022:



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 of the 16 staff employed as of June 30, 2022, 12 (75 percent) maintained at least one designation during FY 2022.

**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 FY 2022 primarily with centralized payroll charges. The schedule below reflects the FY 2022 budget and actual expenditures as of June 30, 2022. Notably, Internal Audit finished FY 2022 more than 14 percent under budget.

Category	Budget	Actual Expenditures and Encumbrances (cash basis)	Positive Variance
<b>Expenditures:</b>			
Payroll	\$2,600,000	\$2,237,689	\$362,311
Purchased Personal Services	25,000	7,655	17,345
Maintenance/Supplies	130,000	120,743	9,257
	<b>\$2,755,000</b>	<b>\$2,366,087</b>	<b>\$388,913</b>

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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)

August 1, 2022

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