

- If it becomes necessary to move the internal auditors to a centralized location, there will be one-time start-up costs for office space and equipment, carrying out the transfers of employees and training the employees once transferred.
- Without knowing how the internal audit program would be implemented through the operations plan, the number of additional staff needed and the associated payroll costs are difficult to estimate.
- The bill specifies that the Office of Internal Auditing (OIA) will be funded through an assessment OBM will charge to each agency for performing this new function. This would be similar to the way in which OBM funds its accounting and budgeting operations. State agencies are currently assessed 0.685% of gross pay per employee for these services and for OAKS Financial component costs. The Accounting and Budgeting Fund (Fund 105) would likely be used to fund the internal audit program's operating expenses and receive chargeback revenue.
- OBM will need federal approval to use the Statewide Cost Accounting Plan (SWCAP) to assess agencies a charge for performing the internal auditing function. If that plan is approved, OBM could use the chargeback to fund operating expenses only. As a result, OBM will require a funding source other than the chargeback for the start-up costs it incurs for the internal auditing program.

Local Fiscal Highlights

- No direct fiscal effect on political subdivisions.

Detailed Fiscal Analysis

The bill creates the Office of Internal Auditing (OIA) within the Office of Budget and Management (OBM), creates the position of Chief Internal Auditor, and establishes the State Audit Committee. The bill also prescribes the duties and functions of OIA, the Chief Auditor, and the State Audit Committee. The Office of Internal Auditing will conduct internal audits of state agencies to improve their operations in the areas of risk management, internal controls, and governance.

Office of Internal Auditing

The bill requires the Director of Budget and Management, with approval of the Governor, to appoint a Chief Internal Auditor to administer the Office of Internal Auditing. As the state of Ohio currently has no existing centralized internal controls program of the nature outlined in the bill, there will potentially be start-up costs to develop the guidelines and rules of OIA. At this time, LSC is uncertain what these costs may be. Based on information provided by Illinois, a state that has implemented a comparable program, internal auditing costs there decreased following consolidation. The fiscal impact on the state of Ohio would depend on several factors not addressed in the present version of the bill.

State Audit Committee

The State Audit Committee consists of one public member appointed by the Governor (specified as a person external to the management structure associated with the preparation of financial statements of state government), two public members appointed by the House Speaker (one of which may be recommended by the minority leader of the House of Representatives), and two public members appointed by the Senate President (one of which may be recommended by the minority leader of the Senate). Not more than two of the four members may belong to or be affiliated with the same political party.

The State Audit Committee would be required to ensure that the internal audits conducted by OIA conform to international standards, review and comment on the process OBM uses to prepare its annual budgetary financial report and the state's Comprehensive Annual Financial Report (CAFR), and review and comment on unaudited financial statements submitted by the Auditor of State. Additionally, the Chief Internal Auditor is required to submit a report for Committee review and comment on the internal audits of state agencies before the beginning of each fiscal year. The Committee members are to be reimbursed for actual and necessary expenses incurred in the discharge of their duties. Presumably, these expenses would be paid from the same fund that will be used to cover operating expenses of the new division, most likely the Accounting and Budgeting Fund (Fund 105).

The bill also requires periodic audits of all state agencies and directs the agencies to provide OIA with records and documents necessary for the performance of an internal audit. Many state agencies have existing internal auditors on staff, so this should not create new work for state agencies,

but there is the potential for a slight increase in the scope of the audits, thereby requiring additional work on the part of agencies.

OIA operations plan

One of the difficulties in determining the number of state employees involved with the internal audit function and associated payroll costs is that merely identifying job titles including the term "internal auditor" does not capture all state employees involved in such tasks. As seen in Table 1 (attached), there are currently seven such state job classification titles, but there are doubtless more state jobs that entail internal auditing tasks.

Thus, the bill requires the Director of Budget and Management, in consultation with the Director of Administrative Services and the State Audit Committee, to develop a plan to commence operations of the OIA. The plan must (1) identify the existing state employees who perform the duties of an internal auditor and who will be transferred to the OIA, (2) establish funds and appropriations necessary for the operation of OIA, (3) provide for a method to assess charges against the state agencies for which OIA conducts internal auditing programs to cover the costs of OIA, and (4) provide for the appropriate reduction in appropriations of the state agencies from which the existing employees are transferred. This plan must be developed before May 1, 2008 and must be approved by the Controlling Board.

OIA operating costs

Start-up and ongoing costs

In its discussions with LSC, OBM noted that a minimum of 100 FTEs will need to be evaluated and either moved, reclassified, or laid-off as a result of the bill. Currently, the number of internal auditors needed to carry out the functions of the bill is unclear, as it would depend upon the structure of OIA developed in the operations plan described above. It is also unclear where the employees will be located, or what number of employees would be either transferred or hired. If it becomes necessary to move the internal auditors to a centralized location, there will be one-time start-up costs for office space and equipment, costs for carrying out the transfers of employees, and costs for training the employees once transferred. OBM expects new clerical and supervisory staff to be hired, adding new payroll costs. However, without knowing how the internal audit program would be implemented through the operations plan, the number of additional staff needed and their payroll costs are difficult to estimate. If existing positions were merely transferred administratively, associated payroll costs are unlikely to increase greatly. If there is a need to reclassify existing staff into higher paying job classifications, then there may be some new payroll costs for existing employees.

Yet, by consolidating internal audit staff within OBM and budgeting for that staff within OBM's budget, there may be some payroll savings for affected agencies. However, assessing chargebacks to those same agencies will offset some of those payroll savings.

Funding source

The bill requires OBM to assess a charge against each state agency for which OIA conducts internal auditing programs to offset the costs of the operation of OIA. Currently, OBM provides budgeting and accounting services to state agencies via the Accounting and Budgeting Fund (GSF Fund 105). The revenue for this fund is a charge on state agencies' payroll, currently set at 0.685% of gross pay per employee for FY 2008. The charge also funds the costs of the Financials component of the Ohio Administrative Knowledge System (OAKS). OBM noted that revenue from the chargeback would likely be deposited into Fund 105, which is currently being used for the program created under the Governor's executive order, which is discussed below.

However, it is important to note that OBM will need federal approval to use the Statewide Cost Allocation Plan (SWCAP) to assess agencies a charge for performing the internal auditing function. OBM's SWCAP section determines the value of services provided by agencies that provide services benefiting all state agencies and divides the cost among them. OBM also prepares and submits the state's SWCAP annually to the federal government. If the plan to use the chargeback for internal auditing costs is approved, OBM could only use the chargeback to fund operating expenses. The end result is that OBM will require a funding source other than the chargeback for program start-up costs. As of this writing, it is uncertain where this funding would come from.

Background - Governor's Executive Order

On July 26, 2007, the Governor signed Executive Order 2007-25S, which created the Division of Internal Control and Audit Oversight and the State of Ohio Audit Committee. The executive order tasks the new Division with overseeing and monitoring compliance with internal control programs within each of the state agencies and assuring that adequate internal controls exist to continuously diminish financial risks to state operations. The executive order directs the Director of Budget and Management to appoint a Chief Internal Controller to lead the Division. The State Audit Committee is composed of representatives of the Auditor of State, Attorney General, Secretary of State, Treasurer of State, Chief Justice of the Ohio Supreme Court, President and Minority Leader of the Ohio Senate, and the Speaker and Minority Leader of the Ohio House of Representatives. As of this writing, OBM is currently examining the new program and reported that the Chief Internal Controller has been hired and will begin employment on November 5, 2007.

Internal Auditor Position Titles And Descriptions, State Classification System	
Position Class Title and Class #	Job Description
Internal Auditor 1 66411	The full performance level class works under direction and requires considerable knowledge of accounting and auditing in order to learn to conduct and/or conduct routine audits of simply structured and/or complex programs; including financial, operational and compliance audits, and prepare report of findings and recommendations.
Internal Auditor 2 66412	The advanced level class works under direction and requires thorough knowledge of accounting and auditing in order to learn to conduct and/or conduct non-routine audits of simply structured programs; including financial, operational and compliance audits, prepare report of findings and recommendations and learn to conduct non-routine audits of complex programs.
Internal Auditor 3 66413	The advanced level class works under direction and requires thorough knowledge of accounting and auditing in order to prepare audit programs/guidelines and/or coordinate work of internal audit personnel, conduct non-routine audits of complex programs and/or act as

Internal Auditor Position Titles And Descriptions, State Classification System	
Position Class Title and Class #	Job Description
	lead worker, conduct financial, operational and compliance audits of entities regardless of program complexity and resolve and/or assist lower-level internal auditors in resolving most complex audit problems.
Internal Audit Supervisor 1 66415	The first supervisory level class works under general direction and requires thorough knowledge of accounting and auditing in order to supervise internal auditors assigned to one unit or act as chief internal auditor for large board (i.e., library board), small agency or non-decentralized commission (i.e., level to be used where chief fiscal officer is classified as Fiscal Officer 2) and supervise lower-level internal auditors.
Internal Audit Supervisor 2 66416	The second supervisory level class works under general direction and requires extensive knowledge of accounting in order to supervise lower-level internal audit supervisors for assigned section or in district office or act as chief internal auditor for elected/appointed official or agency that is not multi-funded and/or multi-faceted nor considered largest, decentralized agency/commission (i.e., level to be used where chief fiscal officer is classified as Fiscal Officer 3 or Business Administrator 4) and supervise lower-level internal audit supervisors and/or internal auditors.
Internal Accounting/Audit Program Manager 66417	The first managerial level class works under administrative direction and requires extensive knowledge of accounting, auditing and state government accounting methods and procedures in order to plan, implement and direct internal audit program for largest, decentralized state agency/commission (i.e., includes district, institutional, regional and/or community services operations under same appointing authority) and supervise lower-level internal audit supervisors and/or internal auditors (i.e., level to be used where chief fiscal officer is classified as Fiscal Officer 4 or Business Administrator 5), or plan, implement and direct all activities of internal audit program of large, decentralized agency (i.e., as defined previously) and includes external audits of operations which have been privatized (e.g., state liquor stores), but still fall under regulatory control of given state agency and supervise assigned staff, or in Office of Budget and Management, direct operations of state's Central Accounting System or maintain and ensure all fiscal year appropriations for all state agencies are accurate and current and ensure all general accepted accounting procedures are followed by all state agencies and in addition to either option, supervise assigned staff.
State Internal Accounting & Audit Administrator 66418	The second managerial level class works under administrative direction and requires extensive knowledge of accounting, auditing and state government accounting methods, procedures and fiscal controls in order to plan, implement and direct statewide Central Accounting System, establish controls and review process to ensure compliance with statutes and supervise lower-level internal accounting/audit program managers and support staff.

Source: Department of Administrative Services, Human Resources Division. Pay Range Booklet, 1/29/2006

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