

# Annual Report on Statewide Internal Audit Activities Fiscal Year 2020



Compiled by the  
Department of Administrative Services Internal Audit Section

**DAS**  
DEPARTMENT OF  
ADMINISTRATIVE  
SERVICES

## A message from Katy Coba, Oregon's Chief Operating Officer

Following is the 2020 statutorily required (ORS 184.360 (6)) annual report on internal audit functions.

This report summarizes state government internal audit functions over the last fiscal year, July 2019 to June 2020, and includes, but is not limited to the following:

- An executive summary of activities
- A brief background of internal audits.
- Internal audit efforts and accomplishments
- Internal audit quality review.
- A summary of audit reports and consulting engagements.

The information highlighted in this report is provided by agency Chief Audit Executives or their designees. This report follows the same format as last year and is a bridge as the Department of Administrative Services (DAS) continues to collaborate with the internal audit community to improve collection and reporting of information for future reports.

DAS would like to express appreciation to the Chief Audit Executive Council (CAEC) for their support as new programs and processes are developed to improve internal audit activities within state government. Without their willingness to share their time and expertise, many of the projects undertaken this last year would not have been successful.

## A message from Lisa Upshaw, DAS Chief Audit Executive and Statewide Internal Audit Coordinator

As with all areas of state government, Internal Audit was impacted by COVID-19 late in FY20. Many of us transitioned to primarily working from home, learned to attend meetings and interviews via virtual platforms such as Microsoft Teams, made adjustments to audit plans that included audit, consulting, and advisory engagements. Many of those changes surrounded pandemic-related work and even provided services in areas outside of internal audit.

I want to thank all of my peers for stepping up during this difficult time. You have, as always, embodied the dedicated professionals you are. On behalf of all DAS, I want to thank you for your continuous efforts to support and add value to the agencies you represent.

If you have questions or would like to obtain additional information please contact:

Lisa Upshaw  
DAS Chief Audit Executive  
Lisa.Upshaw@oregon.gov  
971-719-3114

## Contents

2	Executive Summary
2	The Value of Internal Audit
2	Audit Risk Categories
3	Overview of Internal Audits in State Government
3	Code of Ethics for Internal Auditors (Red Book)
3	Ethics Standards for Auditors (Yellow Book)
4	Three Lines of Defense Model
5	Oregon's Chief Audit Executive Council (CAEC)
6	Efforts and Accomplishments
6	Audit Engagements
6	Consulting Engagements
6	External Audit Liaison
7	Quality Review
7	Due Professional Care
7	Professional Certifications and Advanced Degrees
9	Appendix A Agencies Meeting IA Requirement
11	Appendix B Audit Reports
13	Appendix C Consulting Engagements
14	Appendix D IAC Components
15	Appendix E Agency Abbreviations
16	Appendix F IA Statute and Rule



# Executive Summary

This executive summary provides a snapshot of data about internal audit functions within state agencies. Additional information supporting the data provided in this summary can be found within the body of the report.



## Audits and Consulting:

Agencies reported completing **49 audits** and **23 consulting engagements** on a number of key topics.



## External Audit Liaison:

State internal **auditors act as liaisons** to a wide variety of external audit teams from local, state and federal agencies. These agencies include, but are not limited to: the U.S. Department of Labor, the Internal Revenue Service, Federal Emergency Management Agency, and the Oregon Secretary of State Audits Division.



## Quality Assurance Reviews:

**One agency** had an **external quality review** in FY 2020. The agency received the highest rating "generally complied."



## Education:

**20** state internal auditors hold **advanced degrees**; **27** hold a **professional designation**.



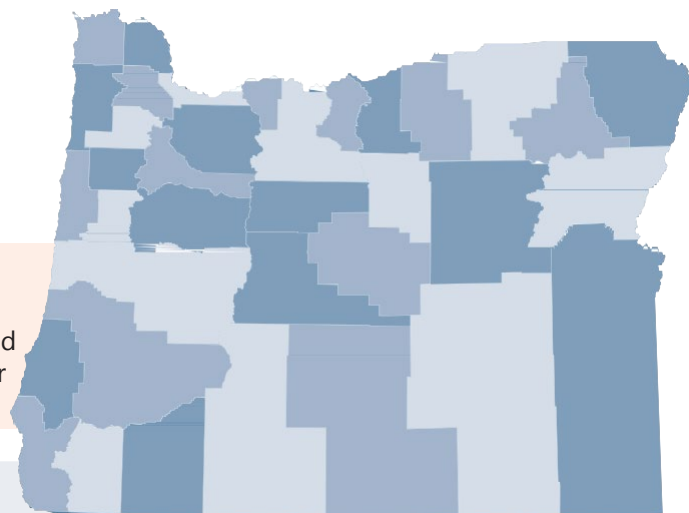
## Training:

State internal audit professionals completed over **1,457 hours** of training during FY 2020.



## Standards and Code of Ethics:

Of those agencies with an internal audit function, **100% align themselves with a professional set of audit standards and a code of ethics**.



## The Value of Internal Audit:

- Provides independent and objective insight and assurance.
- Helps enable transparency within an organization.
- Serves as an essential part of an agency's leadership team.
- Assists an agency in meeting its strategic goals and accomplishing its mission and vision.
- Provides independent unbiased assessment of agency operations.
- Reviews the effectiveness of risk management, controls and governance processes.
- Helps an agency achieve its operational, financial and compliance objectives.
- Understands the organization's business objectives and strategy and identifies risks and barriers to success.

## Examples of Risk Categories

- |                          |                          |
|--------------------------|--------------------------|
| • Compliance /Regulatory | • Financial              |
| • Control                | • Fraud                  |
| • Customer               | • Information Technology |
| • Operational            | • Reputation/ Political  |
| • Reporting              | • Equity                 |

# Overview of Internal Audits in State Government

During FY 2020, 34 agencies met the criteria to maintain an internal audit function. Twenty have an established in-house internal audit unit. Three agencies reported using contracted vendors for some internal audit work, spending approximately \$135,167. Four agencies established new internal audit functions and two had approved functions, but did not recruit and/or hire for the position. The remaining five agencies received an exception from DAS.

Auditing standards provide a framework for conducting high-quality engagements with competence, integrity, objectivity and independence. Oregon state government internal audit functions follow one of two globally recognized standards: the International Standards for the Professional Practice of Internal Audits (Red Book) issued by the Institute of Internal Auditors or the generally accepted Government Auditing Standards (Yellow Book) issued by the U.S. Government Accountability Office.

Guided by a professional set of standards and ethics, state internal audit functions add value by independently supporting informed decision-making and organizational efficiency and effectiveness. By performing periodic risk assessments (see Appendix A), internal audit determines which programs or areas to audit. The assessment feeds into a plan that identifies the audits to be undertaken in a

## IIA Core Principles

1. Demonstrates integrity.
2. Demonstrates competence and due professional care.
3. Is objective and free from undue influence.
4. Aligns with the strategies, objectives, and risks of the organization.
5. Is appropriately positioned and adequately resourced.
6. Demonstrates quality and continuous improvement.
7. Communicates effectively.
8. Provides risk-based assurance.
9. Is insightful, proactive, and future-focused.
10. Promotes organizational improvement.

specified time period.

To enhance the independence of the internal audit role, Chief Audit Executives should report administratively to a senior executive, such as a director or deputy, and functionally to an audit committee. DAS recommends that each agency Chief Audit Executives also serve as non-voting members of their agency's executive or leadership team.



### Code of Ethics for Internal Auditors (Red Book)

- Integrity
- Objectivity
- Confidentiality
- Competency



### Ethics Standards for Auditor (Yellow Book)

- The Public Interest
- Integrity
- Objectivity
- Proper Use of Government Information, Resources, and Positions
- Professional Behavior

Auditing is essential to government accountability and the public expects work done under GAGAS to follow ethical principles. All agencies follow Red Book Standards, with the exception of ODOT which follows Yellow Book Standards.

*"The audit results report provided ideas and details as to why we needed to do things differently."*

*"This has provided the project with additional tools to help ensure success, which is the only option. I highly recommend independent reviews like this for every medium to large agency-wide projects."*

-From a DOR Post-Audit Survey

## GAO auditing in accordance with standards:

1. Provides essential accountability and transparency.
2. Is independent and objective.
3. Serves the public interest.
4. Acts in good faith and with integrity.
5. Exercises professional judgment.
6. Performs high-quality, competent work.
7. Reports in a clear, concise, complete and accurate manner.
8. Leads to improved management, better decision making, and efficient and effective operations.



**Audit committees with at least one external member**

**24**



**Audit committees with all internal agency members**

**0**



**External member is audit committee chair**

**10**

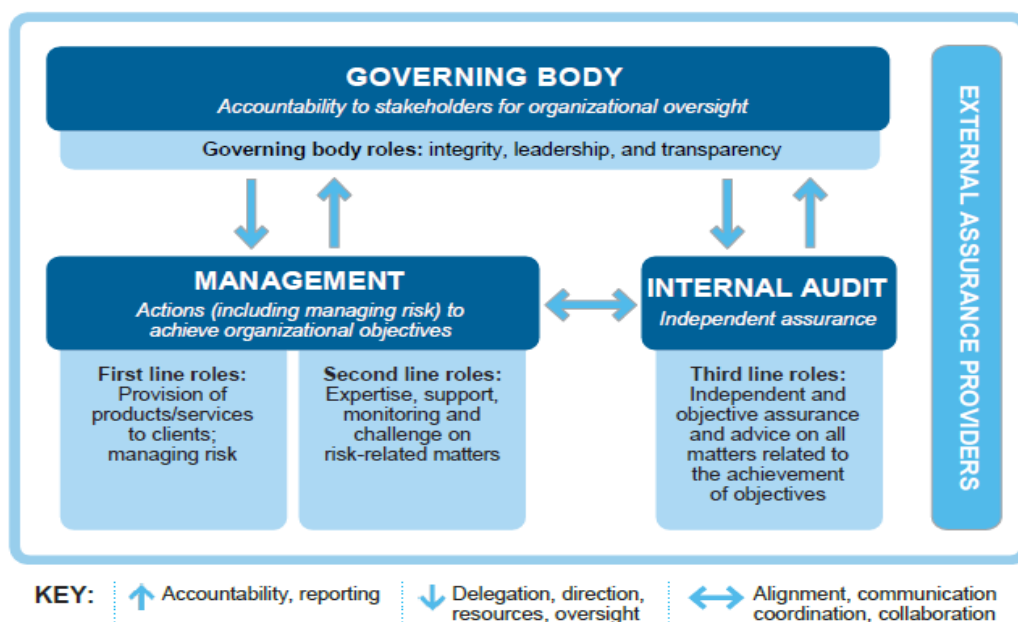


**No reported audit committee**

**3**

Each agency that meets the requirement to establish and support an internal audit function must also establish an audit committee. The audit committee provides functional oversight of the internal audit function and helps to ensure the internal audit function's independence. The audit committee also formally approves or accepts the agency's audit plan. The graphic above gives an overview of the composition of audit committees within state agencies.

## The IIA's Three Lines Model



Internal auditors play a very important role within agencies. As shown in the Three Lines of Defense Model (above), management control is the first line of defense in risk management; the various risk control and compliance oversight functions established by management are the second line of defense; and Internal Audit is the third.

Although they are the last line of defense, internal auditors have the unique position of reviewing and evaluating the same body that employs them. Therefore, independence and objectivity are hallmarks of the internal audit community. Internal auditors must have an unbiased mental attitude when performing engagements, with no personal or professional involvement with, or allegiance to, the area being audited. At the same time, they are earning the trust and respect of the agency for which they work.

# Oregon's Chief Audit Executive Council (CAEC)

*Background:* Per ORS 184.360, DAS coordinates internal audit activities within state government to promote effectiveness. The Chief Audit Executive Council (CAEC) is an important component of DAS' ability to coordinate such activities.

The CAEC is a collaborative group with the intent of sharing information to promote effective internal audit resources within state government. While not directing individual agency internal audit functions, the CAEC strives to enhance the internal audit professional role and impact on governance, risk management and control activities within state government.

Through the creation of subcommittees and work groups, the council has successfully created a mentorship program for new auditors, an audit committee handbook and FAQ, and new statewide internal audit performance measures that will be reported in next year's annual report.

Future endeavors include the following:

1. Review of current internal audit OARs and possible revisions.
2. Development of a standardized Quality Assurance Review Reciprocal Program between agency audit functions.
3. Development of online training on the basics of internal audit.
4. Creation of a new database application on internal audit activities. This project began in FY 2019, but was placed on hold due to the pandemic.

## Performance Measures:

In October 2019, a Chief Audit Executive Council subcommittee began work on developing performance measures with the goal that the data would be included in the FY2021 annual report. This group consisted of CAE's from OMD, ODHS/OHA, OJD, DOR, ODOT, and ODF and work was completed and approved by the CAEC and DAS in June 2020. The suggested measures that agencies will start to track and report on are as follows:

1. Percentage of agencies meeting target for "closed" internal audit recommendations.
2. Retention rate for internal auditors.
3. Compliance with ORS 184.360.
  - a. Produced a risk assessment that conforms to audit standards
  - b. Completed at least one risk based audit per year derived from the annual risk assessment.
  - c. Completed a governance or risk management audit within the last 5 years.
4. Percentage of post-audit survey respondents reporting an audit added value.
5. Percentage of annual audit plan completed within the fiscal year.
6. Percentage of staff that obtained at least 40 hours CPE per year.

## Internal Audit Committee Handbook and FAQ:

In December 2018, the Secretary of State Audits Division conducted an audit on internal audit at state agencies. One of the recommendations centered on training to new and existing audit committees. DAS Chief Audit Executive, with the assistance of Chief Audit Executives from DCBS, OPRD and Biz Oregon, updated the Audit Committee Handbook and FAQ. This project was completed in June 2020. The intent is to utilize both for ongoing training provided to audit committees.

The FAQ can be downloaded from the DAS Internal Audit webpage: <https://www.oregon.gov/DAS/Pages/audit.aspx>.

## Mentorship Program:

In the fall of 2019, the CAEC launched a mentorship program that matches new Chief Audit Executives with an experienced CAE from another Oregon agency based on their internal audit and state government experience. Over the course of six months, mentors provide resources, guidance, and insight as new CAEs begin to direct or establish their agency's internal audit function. CAE's from ODE, OMD, ODOE, and OPRD developed materials and set up administration of the program.

In its first year seven agencies have participated in the program, with CAE's from OJD, ODE, DCBS, PERS, ODHS/OHA, OMD, and ODOE stepping into the "Mentor" role. General consensus is that the program is a success.

# Efforts and Accomplishments

Agency internal audit functions completed 49 audits in FY 2020 and an additional 23 consulting engagements. The audit function may also serve as liaison when an agency is involved in an external audit of its operations. This section of this report describes each type of engagement and the actions internal auditors take during the course of an engagement.

## Audit Engagements

Audit objectives may touch on performance, compliance, governance, costs, controls, information systems, management's responses to audit observations, or other areas. Internal auditors remain alert to the possibility of fraud during the course of their engagements and take steps to ensure audit reports are based on sufficient, appropriate and accurate audit evidence. If potential fraud is suspected to have occurred, internal audit functions coordinate efforts with appropriate authorities, which may include law enforcement and the Secretary of State Audits Division. Internal auditors also conduct follow-up with management on outstanding findings and recommendations. For more detail on the 49 audits completed by the state's internal audit functions, refer to Appendix B.

## Consulting Engagements

Consulting activities are proactive and provide real-time feedback to agencies regarding the design, development, and implementation of strategies, policies and processes. Consulting activities foster the enhancement of management's strategic planning and risk management efforts. Participating as a non-voting member of executive teams and workgroups, observing daily operations and engaging with staff at all levels of the agency, and serving as advisor and facilitator to management are all aspects of consulting services (refer to Appendix C for a list of reported consulting engagements).

## External Audit Liaison

In addition to resourcing internal efforts, internal auditors may facilitate agency reviews conducted by external local, state, or federal entities, such as the Secretary of State Audits Division, U.S. Department of Agriculture, Federal Bureau of Investigation, Federal Emergency Management Agency, Internal Revenue Service, U.S. Department of Justice, Occupational Safety and Health Administration, and Social Security Administration. Internal audit functions serve as liaison between these entities and their agencies, ensuring clear, cooperative communication and an accountable agency response to external observations. As with internal audit engagements, follow-up is conducted on outstanding findings and recommendations with management. Likewise, internal auditors may receive referrals from the Secretary of State's Fraud, Waste, and Abuse hotline to follow up and report on.

Internal auditors at ODHS/OHA discovered potential savings exceeding \$300,000 with improvements on mileage reimbursement.

*"Internal Audit's greatest value is the ability to provide independent assurance to management and stakeholders that programs are achieving objectives and maintaining compliance with appropriate laws and regulations. Internal audit is a critical organizational function that is able to provide accountability and transparency. Additionally, during these unprecedented times, internal auditors are well positioned to provide timely advice and guidance to management when programs and processes are needed to be modified to meet new demands." - Aaron Hunter - External Member of the OMD Audit Committee.*

### State agency internal audit functions completed:

**49** **AUDIT**  
**REPORTS and**  
**23** **CONSULTING**  
**ENGAGEMENTS**





## Quality Review

Internal audit functions at state agencies are evaluated for conformance with auditing standards by professional and trained auditors external to the agency. The external review evaluates the function's effectiveness in carrying out its mission and identifies opportunities to enhance its management and work processes. Specifically, these quality assurance reviews evaluate the auditor's independence and objectivity, proficiency and due professional care, quality of work, and how effectively the internal audit function is managed.

Internal audit functions are also expected to have internal quality assurance and improvement programs. These programs include ongoing monitoring and periodic self-assessment designed to lead to appropriate improvements.

External quality assurance reviews are required every five years for those that follow Red Book standards and every three years for agencies that follow Yellow Book standards. In Oregon, one internal audit function received an external quality assurance review in FY 2020 (refer to Appendix A).

## Due Professional Care

Each auditor is responsible for performing their work with proficiency and due professional care. Proficiency is developed through education, experience, professional development, and relevant certifications. Due professional care requires an understanding of auditing standards as well as the creation and implementation of organization-specific policies and procedures governing the audit process. The DAS Chief Audit Executive is responsible for assisting agencies with compliance with auditing standards as well as recruiting, training, planning, staffing, and supervising engagements. Agencies reported over 1,457 hours of training completed by internal audit staff in FY 2020.

**AUDITORS  
REPORTED OVER  
1,457 HOURS  
OF TRAINING.**

**That's about 39  
hours per Auditor!**



## Professional Certifications and Advanced Degrees

Internal auditors in Oregon generally hold relevant professional certifications and are experienced professionals with a high level of education. Of the 37 professionals dedicated to an internal audit function at the close of FY 2020, 27 (77%) reported a professional designation, and many hold more than one.

Certifications include, but are not limited to, Certified Public Accountants, Certified Internal Auditor, and Certified Government Auditing Professional.

In addition to the professional certifications, 19 of the 37 auditors (51%) hold advanced degrees in Business Administration, Public Administration, Public Policy, Management, or another advanced degrees.

*"You ask us why we are following certain processes, what value does a specific process have. You help us get to the point, through objective information provided, where we can decide whether or not to eliminate a process. This helps us to be more efficient and cost-effective. You also help out wherever you can. You are willing to do whatever it is to be help us pull through, an example is the contact tracing for the pandemic and being a back-up... Transporting PPE. This work is so important right now. You build rapport with staff so they do not feel threatened by your function. You are down to earth. You are objective. You maintain the independence of the audit function without being disconnected from the team. The audit committee meetings are well-organized, to the point and the length of the meetings are good." -Dr. Marcia Adams, Medical Director and Assistant Director for Health Services (OYA audit committee member).*

*"The CAE has gotten to know the business through intentional connections with staff in many areas of our agency. The value of an internal auditor is based on their credibility and approach, she has been a great model in doing things the right way. Strong voice and a great listener!" Clint McClellan, Assistant Director OYA*



## COVID-19

Statewide impacts of COVID-19 continue to persist. Agency internal audit functions have had to adapt quickly in order to continue bringing quality and unique perspectives to agency issues. Auditors have been asked to attend additional management meetings, take on additional COVID related consulting roles, and help adjust agency priorities through discussions with leadership. In addition, some agency audit functions were tasked with pivoting all focus to COVID, with others assisting in Agency Operations Centers.

Changes brought on by the new environment have brought challenges as well. Nearly all internal audit functions had to review and updated risk assessments to include COVID-19 concerns. There were struggles to work efficiently from home including less than ideal internet connections, adjusting to and setting up home offices, and finding a virtual hosting platform that would function agency wide. Auditors had to adapt to conducting interviews virtually and obtaining data without being on site. Response times have been delayed significantly both for internal and external audits, leading to longer timelines for audits and risk assessments. New internal audit functions are trying to create a program from the ground up without any in person contact.

Even with the challenges brought on by the new environment, agency internal audit functions managed to complete the same number of audits as the prior year while redirecting a large portion of resources to assist with anything COVID related.

**For the most current guidelines and COVID data, please refer to Oregon Health Authority's webpage at:**

<https://govstatus.egov.com/OR-OHA-COVID-19>



# Appendix A

Agencies Meeting IA Requirement under OAR 125-700-0125						
Agency	Internal Audit Program	Staff FTE	Risk Assessment Completed	Risk Based Audit	Governance and Risk Management Process Audit Year Completed	Last External Review and Results
BIZ	Agency IA Function	1	FY 2020	Y	2020	N/A
DAS	Agency IA Function	2	FY 2019	Y	2018	2011 / GC
DCBS	Agency IA Function	1	FY 2020	Y	2018	2018 / GC
ODHS/OHA	Agency IA Function	6	FY 2020	Y	2019	2016 / PC
DOC	Agency IA Function	3	FY 2020	N*	2017	2015 / GC
DOR	Agency IA Function	1	FY 2019	Y	2020	2015 / GC
HECC	Agency IA Function	1	N/A	N**	N/A	New Function
OCB	Agency IA Function	1	N/A	N**	N/A	New Function
ODE	Agency IA Function	1	FY 2016	Y	2019	2020 / GC
ODF	Agency IA Function	1	FY 2019	Y	2020	N/A
ODFW	Agency IA Function	1	FY 2019	Y	2020	N/A
ODOE	Agency IA Function	1	FY 2019	Y	2020	Due 2023
ODOT	Agency IA Function	8	FY 2019	Y	2019	2017 / P
ODVA	Agency IA Function	1	FY 2020	N**	2018	New Function
OED	Agency IA Function	1	FY 2020	Y	2019	2012 / GC
OHCS	Agency IA Function	1	N/A	N**	N/A	New Function
OJD	Agency IA Function	1	FY 2020	Y	2019	2016 / GC
OMD	Agency IA Function	1	FY 2020	Y	2019	New Function
OPRD	Agency IA Function	1	FY 2019	N***	2016	2014 / GC
OSL	Agency IA Function	3	FY 2020	Y	2020	2016 / GC
OSP	Agency IA Function	1	FY 2019	Y	2017	2018 / GC
OST	Agency IA Function	0	N/A	N*	N/A	New Function
OYA	Agency IA Function	1	FY 2019	Y	2018	2017 / GC
PERS	Agency IA Function	3.25	FY 2020	Y	2020	2016 / GC

\*DOC was unable to complete a risk based audit due to turnover of all staff.

\*\*HECC, OCB, ODVA, OHCS, and OST were unable to complete a risk based audit due to the recent establishment of the Internal Audit function.

\*\*\*OPRD's risk-based audit was not completed because funding and strategy around the subject area (Construction Contracting) changed dramatically with COVID.

## Quality Assessment Review Ratings:

### Red Book:

- Generally Conforms (GC)
- Partially Conforms (PC)
- Does Not Conform (DNC)

### Yellow Book:

- Pass
- Pass with Deficiencies
- Fail

Agencies Meeting IA Requirement under OAR 125-700-0125 (without Agency IA Function)							
Agency	Internal Audit Program	Years of Position Vacancy	Staff FTE	Risk Assessment Completed	Risk Based Audit	Governance and Risk Management Process Audit Year Completed	Last External Review and Results
DSL	DAS Approved Exception	7	0	N/A	N	N/A	N/A
ODA	DAS Approved Exception	4	0	N/A	N	N/A	N/A
OWEB	DAS Approved Exception	2	0	N/A	N	N/A	N/A
PUC	DAS Approved Exception	11	0	N/A	N	2018	N/A
WRD	DAS Approved Exception	3	0	N/A	N	N/A	N/A
DEQ	No Function*	1	1	N/A	N	2015	N/A
DOJ	No Function*	8	1	FY 2018	Y	2020	N/A
OLCC	No Function*	10	1	FY 2020	Y	2019	N/A

\*Limited Internal Audit work conducted by contracted Vendor.

## Appendix B

Audit Reports Issued in FY 2020	
Agency	Audit Report Name
BIZ	Program and Fiscal Review
DAS	DAS IT Hardware Asset Management
	DAS SPOTS Card Program
DCBS	OHIM Community Grant Review
	Petty Cash Process Review
	WCB Interpreter Services
DEQ	DEQ Laboratory Internal Audit
ODHS/OHA	Contract Admin - APD
	Behavioral Health Integration
	Enterprise Training Governance
	Mileage Reimbursement
DOJ	Continuity of Operations Planning
DOR	Procurement Processes
ODE	Office of Child Care Legal and Compliance Unit
ODF	Grants
	Delegation of Authority
	Employee Leased Housing Follow-up
	SPOTS Card
	Policy and Procedure
ODFW	Deferred Maintenance
ODOE	Grant Management Procedures
ODOT	Construction Contract Change Orders
	DAS Delegation
	Right-of-way Condemnation
	Motor Carrier Contract Administration Follow-up
	Bid Communications
	Construction Contract Change Order Costs
	Road Usage Charge Program Follow-up
OED	Economic Cycle Plan
OJD	Crook and Jefferson County Circuit Courts - Internal Controls
	Deschutes County Circuit Court - Internal Controls
	Lake County Circuit Court - Internal Controls
	Tillamook County Circuit Court - Internal Controls
OLCC	Marijuana Licensing - Wholesale Producers
OMD	Accounts Receivable Report
	Internal Audit Follow Up Report
OSL	Cybersecurity Risk Assessment - CIS Basic Controls
	Consultative Review of Lottery's Supply Chain Management
	Follow-up Review of Open Audit Recommendations
	Casino Prohibition Rule Compliance Review
	Cybersecurity Risk Assessment - CIS Foundational Controls
OSP	Weapons Audit



<b>PERS</b>	Accounts Payable
	Death Administration
	Benefit Calculations FY-19
	Active Directory
	Employer Data
	Death Benefit Calculations
	Access Management

## Appendix C

Consulting Engagements in FY 2020	
Agency	Consulting Review Topic
DAS	OregonBuys Security
ODHS/OHA	Internal Review of ODHS Client Fraud
	Public Records Request Quality Assurance
DOC	Coffee Creek Camera Consultation
	Change of Deputy Director Review
	Change of Superintendent Review
	COVID-19 Infection Prevention OSP
	COVID-19 Infection Prevention SCI
DOR	Corporate Activities Tax Project
ODE	Student Success Act program evaluation and Implementation
ODVA	Management Review
OMD	Risks Related to State Management of Integrated Training Area Management and Range and Training Land Program
OPRD	Contract Training Review
	Construction Quality Assurance Review
	Agency Covid Support
	Qualified Archaeologist Program Consulting
OSL	IA Participation in 2020 Raffle Drawing
	IA Quarterly Scan of Draw Results
	IA Participation on Strategic Plan Business Initiatives
OYA	NCCHC Accreditation
	PbS/PREA Data Collection Process
	Tuberculosis Screening
PERS	Training and Education

## Appendix D

Audit Committee (AC) Components

Agency	IAC Members Total	IAC External Members	Chair	IAC Formed	IAC Approved Charter	IAC Meeting Timeframe
BIZ	8	2	External	2013	2020	Quarterly
DAS	9	3	External	1998	2020	Quarterly
DCBS	10	1	Internal	1999	2019	Quarterly
DEQ	4	4	N/A	2007	2019	Not Provided
ODHS/OHA	16	3	External	1997	2020	Every other month
DOC	13	1	Internal	2013	2020	Quarterly
DOJ	4	2	Internal	2007	2016	Quarterly
DOR	7	2	Internal	2014	2019	Quarterly
HECC	7	5	External	2020	2020	Quarterly
ODA	N/A	N/A	N/A	N/A	N/A	N/A
ODE	8	6	External	2004	2019	Quarterly
ODF	5	3	Internal	2016	2019	Quarterly
ODFW	8	1	Internal	2017	2019	Quarterly
ODOE	5	2	External	2014	2019	3 X a Year
ODOT	5	5	N/A	2001	2019	Quarterly
ODVA	7	5	External	2020	2020	Quarterly
OED	8	2	Internal	2001	2019	Quarterly
OHCS	N/A	N/A	N/A	N/A	N/A	N/A
OJD	9	1	Internal	1995	2016	Quarterly
OLCC	3	1	Internal	2007	2020	Quarterly
OMD	7	1	Internal	2011	2020	3 X a Year
OPRD	6	6	External	2009	2019	3 X a Year
OSL	7	2	External	1999	2018	Quarterly
OSP	3	1	Internal	2008	2018	Annually
OYA	5	2	Internal	2010	2018	Quarterly
PERS	3	3	External	2004	2019	3 X a Year
PUC	N/A	N/A	N/A	N/A	N/A	N/A

## Appendix E

Agency Abbreviations	
Abbreviation	State Agency or Commission Name
BIZ	Business Oregon
DAS	Department of Administrative Services
DCBS	Department of Consumer and Business Services
DEQ	Department of Environmental Quality
ODHS	Oregon Department of Human Services
DOC	Department of Corrections
DOJ	Department of Justice
DOR	Department of Revenue
DSL	Department of State Lands
HECC	Higher Education Coordinating Commission
OCB	Oregon Commission for the Blind
ODA	Oregon Department of Agriculture
ODE	Oregon Department of Education
ODF	Department of Forestry
ODFW	Department of Fish and Wildlife
ODOE	Oregon Department of Energy
ODOT	Oregon Department of Transportation
ODVA	Oregon Department of Veterans' Affairs
OED	Oregon Employment Department
OHA	Oregon Health Authority
OHCS	Oregon Housing and Community Services
OJD	Oregon Judicial Department
OLCC	Oregon Liquor Control Commission
OMD	Oregon Military Department
OPRD	Oregon Parks and Recreation Department
OSL	Oregon Lottery
OSP	Oregon State Police
OST	Oregon State Treasury
OWEB	Oregon Watershed Enhancement Board
OYA	Oregon Youth Authority
PERS	Public Employees Retirement System
PUC	Public Utility Commission of Oregon
WRD	Water Resources Department



# Appendix F



## Oregon Revised Statutes (ORS):

### **184.360 Internal audits in state government; policy; reports; rules.**

- 1) As used in this section:
  - a) "Executive department" has the meaning given that term in ORS 174.112.
  - b) "State government" has the meaning given that term in ORS 174.111.
- 2) It is the policy of this state that internal audit activities within state government be coordinated to promote effectiveness.
- 3) The Oregon Department of Administrative Services shall adopt rules setting standards and policies for internal audit functions within state government. The rules shall include, but are not limited to:
  - a) Standards for internal audits that are consistent with and incorporate commonly recognized industry standards and practices; and
  - b) Policies and procedures that ensure the integrity of the internal audit process.
- 4) Each agency of the executive department required to have an internal audit function shall produce a risk assessment of the entire agency that conforms to audit standards established by nationally recognized entities such as the United States Government Accountability Office or the Institute of Internal Auditors. The agency shall use its risk assessment as the basis for the selection and performance of at least one internal audit per calendar year.
- 5) Each agency of the executive department required to have an internal audit function shall audit a component of its governance and risk management processes at least once every five years and file a report with the Oregon Department of Administrative Services.
- 6) Not later than December 31 of each calendar year, the Oregon Department of Administrative Services shall prepare a report describing internal audit activities that have occurred in state government during the calendar year in which the report is prepared. The department shall submit the report to the Joint Legislative Audit Committee. In the absence of the Joint Legislative Audit Committee, the department shall submit the report to the Joint Committee on Ways and Means, the Joint Interim Committee on Ways and Means, the Emergency Board or another committee of the Legislative Assembly designated by the President of the Senate and the Speaker of the House of Representatives to receive the report. [2005 c.373 §1; 2009 c.578 §1; 2012 c.107 §6]

## Oregon Administrative Rules (OAR):

### Division 700: INTERNAL AUDITING

#### 125-700-0010

##### **Purpose:**

The Oregon Department of Administrative Services is responsible for adopting rules setting standards and policies for internal audit functions within state government under authority provided in ORS 184.360(3). The rules include, but are not limited to:

Standards for internal audits that are consistent with and incorporate commonly recognized industry standards and practices; and

Policies and procedures that ensure the integrity of the internal audit process.

#### 125-700-0015

##### **Definitions:**

- 1) **Agency:** "State Agency" means any elected or appointed officer, board, commission, department, institution, branch or other unit of the state government.
- 2) **Audit:** An objective examination of evidence for the purpose of providing an independent assessment on risk management, control, or governance processes for the organization. Examples include financial, performance, compliance, systems security and due diligence assurance engagements.
- 3) **Audit Committee:** A committee that provides oversight of internal auditing for the agency. The purpose of the audit committee is to enhance the quality and independence of the internal audit function, thereby helping to ensure the integrity of the internal audit process.
- 4) **Chief Audit Executive:** Top position within the organization responsible for internal audit activities. Normally, this would be the internal audit director. In the case where internal audit activities are obtained from outside service providers, the chief audit executive is the person responsible for overseeing the service contract and the overall quality assurance of these activities, reporting to senior management and the board regarding internal audit activities, and follow-up of engagement results.
- 5) **Internal Audit Function:** A program within an agency that provides independent, objective assurance and consulting services designed to add value and improve an organization's operations and facilitate oversight, accountability, and transparency.
- 6) **Internal Auditing:** An independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.
- 7) **Professional Auditing Standards:** Principles established to ensure the competence and independence of the audit function and the quality of audit work. The Code of Ethics and International Standards for the Professional Practice of Internal Auditing promulgated by the Institute of Internal Auditors, and Generally Accepted Government Auditing Standards, promulgated by the Government Accountability Office, are the two major sets of standards that govern both the conduct of audit work and the audit function.
- 8) **Risk:** The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact (the effect) and likelihood (the probability the event will occur).

- 9) **Risk Assessment:** A process of identifying, analyzing and prioritizing risks to the achievement of an agency's mission, goals, or objectives.
- 10) **Risk Management:** A process to identify, assess, manage, and control potential events or situations to provide reasonable assurance regarding the achievement of the organization's objectives.

#### 125-700-0125

### Internal Auditing Requirements

- 1) In every agency that meets one or more of the criteria below, the agency head shall establish, maintain, and fully support an internal audit function or contract for the equivalent, within existing resources.
  - a) Total biennial expenditures exceed \$100 million;
  - b) Number of full-time equivalent employees exceeds 400; or
  - c) Dollar value of cash and cash equivalent items received and processed annually exceeds \$10 million.
- 2) Exceptions to having an internal audit function or contract equivalent may be requested in writing by agency heads to the Chief Operating Officer of the Department of Administrative Services. Each exception request will be reviewed and decisions made on a case-by-case basis.
- 3) For agencies not meeting the criteria above, an internal audit function is encouraged. Agencies that have an internal audit function must follow this OAR.

#### 125-700-0135

### Agency Internal Audit Function Governance

- 1) Agency internal audit functions shall select appropriate professional auditing standards to follow in performing their audit work.
- 2) To help ensure the integrity of the internal audit process agency management shall take reasonable steps necessary to assist the internal audit function to comply with the selected professional auditing standards.
- 3) The agency's internal audit charter shall specify the internal audit function's purpose, authority, responsibilities, and the professional auditing standards the function will follow. The agency's charter must be approved by the audit committee.
- 4) The internal audit staff shall have unrestricted access to all systems, processes, operations, functions, and activities within an agency as needed to perform job responsibilities.
- 5) Each agency having an internal audit function shall establish and maintain an audit committee.
  - a) The role and function of the audit committee shall be stated in a formal, written charter that describes the authority, responsibilities, and structure of the audit committee. The charter must be approved and periodically reviewed by the audit committee and governing board (or agency head in the absence of a governing board).
  - b) The primary purpose of the audit committee is to enhance the quality and independence of the audit function, thereby helping ensure the integrity of the internal audit process.
  - c) If the agency has a governing board or commission, the audit committee must include one or more board or commission members. If there is no board or commission, agencies are encouraged to include qualified individuals from outside the agency on the audit committee, to enhance public accountability and transparency, and increase independence of the internal audit activity.
- 6) The agency's audit committee will assure follow-up on internal audit reporting findings and recommendations to determine whether proper corrective action has been completed or that senior management has assumed the risk of not taking the recommended corrective action.
- 7) The internal audit function shall report results to the agency head, executive designee, agency management and the audit committee on internal audit activities.

## **125-700-0140**

### **Planning and Reporting Responsibilities**

- 1) Each agency's Chief Audit Executive shall prepare an audit plan of engagements based on the most recent risk assessment. The plan should be risk-based and consistent with organizational goals. The plan must be reviewed and approved by the audit committee. At least one risk-based audit shall be selected and performed from the risk assessment each calendar year.
- 2) Each agency's Chief Audit Executive shall identify an audit topic related to governance and risk management at least once every five years. Examples of audit topics include ethics, strategic management, performance management, the alignment of information technology with the agency's strategies and objectives, systems in place to assure compliance with laws and regulations, and processes in place to prevent and detect fraud.
- 3) Each agency's Chief Audit Executive shall prepare an annual report covering the time period of July 1 through June 30 of the preceding year, in a format that has been requested by the Oregon Department of Administrative Services.
  - a) The annual report must be submitted to the agency head, audit committee, and the Internal Audit Section of the Oregon Department of Administrative Services no later than September 30th of each year.
  - b) Information not included in an agency's report must be available for review upon request of the Oregon Department of Administrative Services.
- 4) Completed risk assessments and internal audits need to be filed with the Division of Audits of the Office of the Secretary of State.

## **125-700-0145**

### **External Review**

- 1) Agency internal audit functions must have an external review to determine whether the function is operating in accordance with professional auditing standards. This review must result in an issued report.
- 2) A copy of the external review report will be provided to the audit committee and to the Internal Audit Section of the Oregon Department of Administrative Services with the internal audit function's annual report.
- 3) Agency internal audit functions may have the review performed by an external provider, or may participate in a coordinated effort through the Department of Administrative Services to have a review performed by internal audit staff from other state agencies.
  - a) Reviews performed under this coordinated effort must be performed by at least two auditors, and led by an auditor with formal training or experience performing external reviews.
  - b) Agency internal audit functions who choose to participate in the coordinated effort must also volunteer time to perform reviews at other agencies.

## **125-700-0150**

### **Internal Audit Independence**

- 1) The agency's Chief Audit Executive reporting position must be at an administrative level that will maximize both independence and objectivity. In most cases, the Chief Audit Executive must report administratively to the agency head or executive designee, and must report functionally to the audit committee.
- 2) The Chief Audit Executive must have unrestricted access to decision-makers and decision-making bodies and to the information and employees needed to perform internal audit duties and responsibilities. The Chief Audit Executive must be free to obtain advice and information from sources inside and outside the agency.
- 3) The internal auditor(s) must be free of undue influence to limit the audit scope and audit assignment schedule.
- 4) The internal audit function must be free of any responsibilities that would impair its ability to make independent reviews of all aspects of the agency's operations.



- 5) A scope limitation, including resource limitations, placed upon an internal audit function that precludes it from meeting objectives must be communicated in writing to the audit committee and, if applicable, agency management, along with its potential effect.

#### **125-700-0155**

### **Audit Records and Retention**

- 1) The agency's internal audit function, must maintain audit work papers and reports in accordance with records retention requirements. The internal audit function should ensure that its records retention schedule will allow it to keep the documents until an external peer review has been performed, and audit findings and recommendations have been appropriately followed-up on. Refer to State Archive requirements and OAR 166-300-0025 for record retention schedules. Records must be kept so they can be retrieved, if necessary.
- 2) The agency's Chief Audit Executive must follow appropriate data classification procedures to monitor and control confidential and sensitive internal audit documents. Confidential documents are those designated as confidential by agency policy or covered by ORS 192.496 through 192.505.