



# Oregon

Kate Brown, Governor

## Department of Administrative Services

Office of the Chief Operating Officer

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December 21, 2011

Paul Siebert, Committee  
Coordinator  
Joint Legislative Audits Committee  
900 Court Street NE  
Salem, OR 97301

**Re: Annual Report on Statewide Internal Audit Activities for the fiscal year ended June 30, 2022**

Mr. Siebert,

The Department of Administrative Services (DAS) respectfully submits the annual report on internal audit activities as required by Oregon Revised Statute (ORS) 184.360 (6).

This report summarizes the activities accomplished and facilitated by agency internal audit functions over the fiscal year 2022 and includes the following:

- An Executive Summary of Activities
- An overview of Internal Audits in State Government
- A description of work conducted by the Chief Audit Executive Council
- Internal Audit Efforts and Accomplishments
- Internal Audit Quality Review
- Appendixes that include the following:
  - Agency compliance with OAR 125-700-0125
  - Audit reports issued
  - Consulting Engagements
  - Audit Committee Components
  - Agency Abbreviations

If you have any questions, or would like to obtain additional information, please contact Lisa Upshaw, DAS Chief Audit Executive, at (971) 719-3114.

Sincerely,

Berri Leslie,  
Chief Operating Officer/ DAS Director

# Annual Report on Statewide Internal Audit Activities Fiscal Year 2022



Compiled by the  
Department of Administrative Services Internal Audit Section

**DAS**  
DEPARTMENT OF  
ADMINISTRATIVE  
SERVICES

## A message from Berri Leslie, Oregon's Chief Operating Officer

Following is the 2022 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 2021 to June 2022, 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.

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

I would like to take this opportunity to thank all the dedicated professionals that make up the Internal Audit community. It's through your willingness to step up and assist in projects that we were able to accomplish much this last fiscal year.

I am especially proud of the work we did on updating the Oregon Administrative Rule on Internal Audit. I have included the final version at the end of this report.

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

Lisa Upshaw  
DAS Chief Audit Executive  
[Lisa.Upshaw@oregon.gov](mailto: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)
	Ethics Standards for Auditors (Yellow Book)
4	Three Lines of Defense Model
4	Oregon's Chief Audit Executive Council (CAEC)
5	Efforts and Accomplishments
5	Audit Engagements
5	Consulting Engagements
5	External Audit Liaison
6	Quality Review
6	Due Professional Care
6	Professional Certifications and Advanced Degrees
7	Appendix A Agencies Meeting IA Requirement
8	Appendix B Agencies Meeting IA Requirement (without IA function)
9	Appendix C Audit Reports
11	Appendix D Consulting Engagements
12	Appendix E IAC Components
13	Appendix F Agency Abbreviations
14	Appendix G 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 **48 audits** and **37 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:

**Five agencies** had an **external quality review** in FY 2022. The agencies all received the highest rating “generally conforms or pass.”



## Education:

**22** state internal auditors hold **advanced degrees**; **a combined total of 55 professional designations** are held by internal auditors.



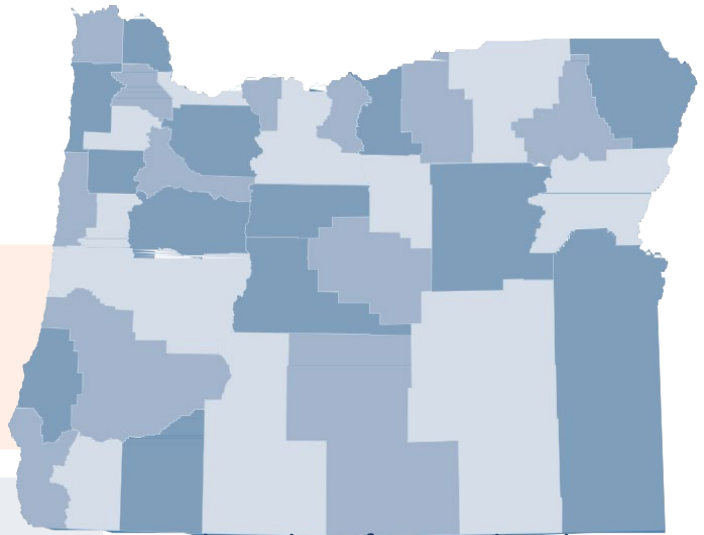
## Training:

State internal audit professionals completed over **1,429 hours** of training during FY 2021.



## 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 2022, 24 agencies maintained an internal audit function. Seven agencies had approved FTE but did not fill those vacancies: often due to failed recruitments. Five agencies reported using contracted vendors for some internal audit work, spending approximately \$202,922.00. Five agencies received an exception from DAS (see page 8, Appendix B).

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 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 agency Chief Audit Executives also serve as non-voting members of their agency's executive or leadership team.

## 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.



### 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

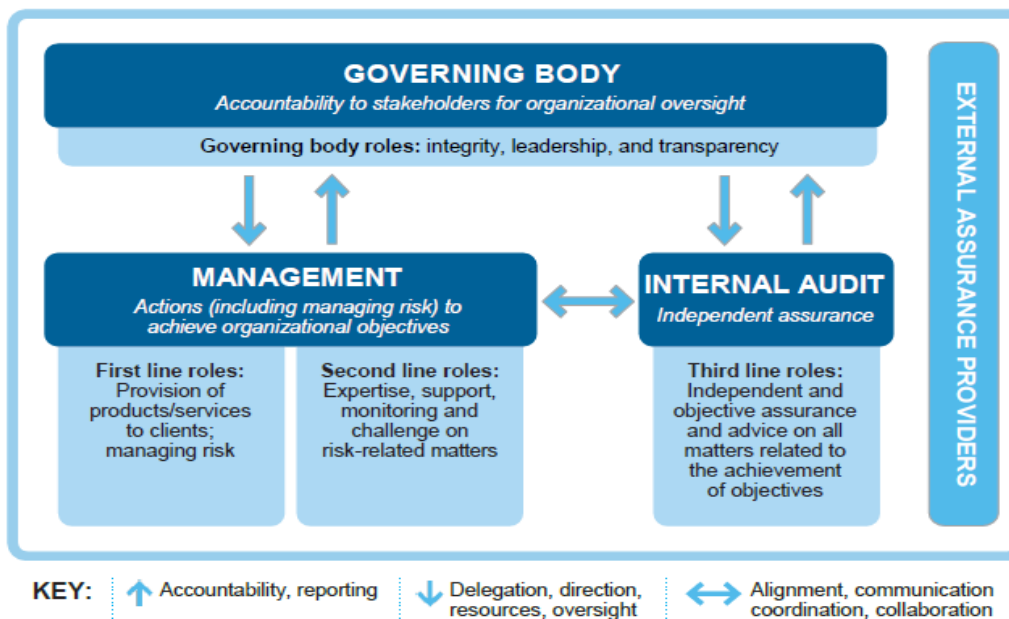
Auditing is essential to government accountability and the public expects work done under GAGAS to follow ethical principles. All agencies follow Red Book Standards, with the exception of ODOT and OCB which follows Yellow Book Standards.

## 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.

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 IIA's Three Lines Model



Internal auditors play a very important role within agencies. As shown in the Three Lines of Defense Model (to the left), 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 completed work on two projects. The first was a review and update of the Oregon Administrative Rule 125-700 that covers Internal Audit. The second was creation of a tool to assist agencies in conducting a Quality Assessment of the function.

## Efforts and Accomplishments

Agency internal audit functions completed 48 audits in FY 2022 and an additional 37 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.

“The value that internal audit delivers at DOR is independent assurance that the agency is in compliance with laws and regulations while delivering efficient and effective government services to Oregonians.”

### 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 48 audits completed by the state’s internal audit functions, refer to Appendix B.

From ODHS/OHA:

“The functions of IAC that are seen include the identification of the greatest risks faced by our agencies based on data and feedback from agency staff and leadership. Out of the list of prioritized risks, the Audit Committee in partnership with IAC determine which of those risks can be measured through an audit process with an attempt to balance audit priorities between the two agencies. Those audits provide our agencies with critical information regarding vulnerabilities. It also provides us with the opportunity to address potential risks that might impact service delivery to Oregonians in a way that allows us to prevent unwanted outcomes and maximize desired outcomes. Over time, internal audits provide us with baseline data that can be measured against periodically to assess progress, lack of progress and potentially areas still needing operational mitigation.”

### 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.

“Given that PERS is a highly complex public sector pension plan with annual cashflows in the billions, it is especially important that PERS have a mature Internal Audit practice. Given the maturity and the genuine value that is added by the team, internal audit engagements are seen as opportunities to review and refine our processes and practices. By looking at audit engagements in this collaborative manner, PERS leadership not only receives assurances that our processes and practices, including internal controls, are effective, but also receives suggestions of how we can become more efficient.”

## 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, we have developed a reciprocal program where Quality Assurance Teams are available to participating agencies to conduct the reviews. These teams are staffed by auditors from different state agencies.

Five internal audit functions received an external quality assurance review in FY 2022; of these, four agencies used the reciprocal program. Members from the following agencies were members of these teams: ODHA/OHA, ODVA, OED, OCBS, PERS, DAS, DOR, ODOE and University of Oregon.

### 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 1,429 hours of training completed by internal audit staff in FY 2022.

#### Post Audit Comments from audit clients (OED):

- Overall, the audit adds value that will assist in future operations.
- The auditor maintained independence and objectivity in performing the audit.
- The auditor was professional and courteous.
- The audit was completed within a reasonable amount of time.
- The auditor maintained an appropriate level of communication throughout the audit.
- The audit objectives were clearly communicated.
- The disruption to daily activities was minimized.



### 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 46 professionals dedicated to an internal audit function at the close of FY 2022, there was a combined total of 55 professional designations. Certifications include, but are not limited to, Certified Public Accountants, Certified Internal Auditor, and Certified Government Auditing Professional.

In addition to the professional certifications, 22 of the 46 auditors hold advanced degrees in Business Administration, Public Administration, Public Policy, Management, or another advanced degree.

## 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	6/30/2022	No**	2021	N/A
DAS	Agency IA Function	2	8/10/2021	Yes	2021	2011 / GC
DCBS	Agency IA Function	1	6/30/2022	Yes	2021	2018 / GC
DEQ	Agency IA Function	1	9/27/2021	Yes	2022	N/A
DOC	Agency IA Function	3	7/12/2022	Yes	2021	2021 / GC
DOJ	Agency IA Function	2^	6/22/2022	No**	N/A	N/A
DOR	Agency IA Function	2	5/18/2022	Yes	2022	2021 / GC
HECC	Agency IA Function	1	6/30/22	Yes	N/A	N/A
OCB	Agency IA Function	1	11/30/2020	Yes	N/A	N/A
ODE	Agency IA Function	1*	6/17/2022	No	2019	2020 / GC
ODF	Agency IA Function	1*	6/15/2021	Yes	2021	2022 / GC
ODFW	Agency IA Function	1	5/05/2021	No**	2021	N/A
ODHS/OHA	Agency IA Function	9	6/30/2022	Yes	2022	2021 / GC
ODOE	Agency IA Function	1	6/27/2022	No**	2021	N/A
ODOT	Agency IA Function	8	1/20/2022	Yes	2019	2021 / Passed
ODVA	Agency IA Function	1	5/1/2022	Yes	2018	N/A
OED	Agency IA Function	1	6/22/2022	Yes	2021	2012 / GC
OHCS	Agency IA Function	1	3/31/2022	Yes	N/A	N/A
OJD	Agency IA Function	2	10/21/2021	Yes	2019	2021 / GC
OLCC	Agency IA Function	1	11/09/2021	Yes	2019	N/A
OMD	Agency IA Function	1	1/24/2021	No	2021	N/A
OPDS	Agency IA Function	2^	3/4/2022	Yes	2022	N/A
OPRD	Agency IA Function	1*	4/25/2022	Yes	2016	2014 / GC
OSL	Agency IA Function	3	1/28/2022	Yes	2022	2020 / GC
OSP	Agency IA Function	1*	8/1/2021	No	2017	2018 / GC
OST	Agency IA Function	2	6/16/2022	No	N/A	N/A
OYA	Agency IA Function	1*	3/03/2021	No	2018	2019 / GC
PERS	Agency IA Function	4	3/28/2022	Yes	2022	2021 / GC

^ DOJ and OPDS have one filled position and one open position

\*ODE, ODF, OPRD, OSP, and OYA had vacancies at the end of the fiscal year.

\*\*BIZ,DOJ, ODFW, and ODOE were unable to complete a risk based audit during the fiscal year due to the recent hire of an internal auditor.

### Quality Assessment Review Ratings:

#### Red Book:

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

#### Yellow Book:

- Pass
- Pass with Deficiencies
- Fail

## Appendix B

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	9	0	N/A	N	N/A	N/A
ODA	DAS Approved Exception	6	0	N/A	N	N/A	N/A
OWEB	DAS Approved Exception	4	0	N/A	N	N/A	N/A
PUC	DAS Approved Exception	13	0	N/A	N	2018	N/A
WRD	DAS Approved Exception	5	0	N/A	N	N/A	N/A

## Appendix C

Audit Reports Issued for Fiscal Year 7/1/2021 – 6/30/2022	
Agency	Audit Report Name
DAS	SEFA Process Audit
DCBS	Central Services Accounts Receivable Audit
DEQ	Compliance and Enforcement Accounts Receivable and Collection Practices
	Oregon Clean Vehicle Rebate Program Audit
	Cleanup and Emergency Response Accounts Receivable and Collection Risk Assessment Memo
	Laboratory Internal Audit
DOC	Use of Force Review Process – Community Corrections
DOR	ITS Service Desk Audit
	CIS Controls Recommendations and Control Audit
	SPOTS 2021 Transaction Review
HECC	SPOTS Purchase Card Program Audit
OCB	Client and Non-Client Payments
ODF	Pass-through Agency's Review of Subrecipient Single Audit
	Procurement Delegated Authority – Delegation No. 740-13
	Document Management Audit
ODHS/OHA	Out of Hospital Birth Benefits
	IT Security: Third-Party Access Agreements
	Behavioral Health Transformation Project Management
ODOT	Pavement Condition Data
	Employee Leased Housing Program
	Addenda Process
	Green Light Program Weigh-in-Motion Scales
	Mentor-Protégé Program
	Capstone Report on Project Delivery Audits
	ODOT Office of Civil Rights DBE Contract Specific Goal Setting
	Fee Errors in DMV Title and Registration Transactions
ODVA	OR Vet Home Loan Program Audit
OED	Paid Leave Oregon Pre-Implementation Audit
OHCS	Prolink Audit
OJD	Technology Assessment – Benton County Circuit Court
	Change of Director – JFCPD
	Technology Assessment – Columbia County Circuit Court
	Technology Assessment – Yamhill County Circuit Court
	Technology Assessment – Deschutes County Circuit Court
	Technology Assessment – Tillamook County Circuit Court
OLCC	Recruiting and Hiring Process Review
OPDS	Report of an Audit of Recent Director's Expenses
	Report of an Audit of Sole-Source Personal Services Procurement by the PDSC and OPDS
OPRD	Telecommunications Tax Review
OSL	Casino Prohibition Rule Program Assessment Memo
	Annual Follow-up Review of Open Audit Recommendations
	Cybersecurity Risk Assessment – CIS Critical Security Controls Memo
PERS	Benefits Calculations

	SPOTS Card
	Individual Account Program (IAP) Risk Assessment
	Employer Data
	FileNet Risk Assessment
	Pop-Up Adjustment

## Appendix D

Consulting Engagements in Fiscal Year 7/1/2021 – 6/30/2022	
Agency	Consulting Review Topic
DAS	ACH Fraud
	Fuel Invoicing
	Vaccine Process Review
DCBS	Post-Audit Cybersecurity
	Division Presentations: Internal Audit Basics
	Employee Engagement Survey Analyses
	Systems Privileged Access Processes
	Server Audit Procedure
	COOP Tabletop Exercise
	SPOTS Procedure Review
	Enterprise Risk Management
	Agency Strategic Planning Session
	Misc. Advice: Worker's Compensation Board
	BCD: Lincoln Project
	Federal Sub-recipient Monitoring / Reporting
	DFR: Institutional Security Deposits
	Clean Vehicle Incentive Program
	Clean-up Standard Rate Review
DEQ	Water Quality Invoicing Procedures
	Change of Director Review – OCE Deputy
DOC	Exceptional Performance Leave
	Change of Director Review – CFO
DOR	Analysis of Suspended Returns
OCB	Timesheet Approvals
	Agency Head Review
	RSA Monitoring Review – Liaison
	Internal Control Manual
ODOE	Telecommunication Services
OHCS	ERA Fraud Prevention
OPDS	Support for Externally Contracted Risk Assessment
	Support for Key Performance Measures Review
OSL	Internal Audit Quarterly Scan of Drawing Results Memo
	Internal Audit Participation in the 2021 Take Your Shot Oregon (TYSO) Drawing Memo
	Internal Audit Quarterly Scan of Drawing Results Memo
	Internal Audit Quarterly Scan of Drawing Results Memo
	Internal Audit Participation in the 2022 Raffle Drawing Memo
	Internal Audit Quarterly Scan of Drawing Results Memo

## Appendix E

Internal Audit Committee (IAC) Components						
Agency	IAC Members Total	IAC External Members	Chair	IAC Formed	IAC Approved Charter	IAC Meeting Timeframe
BIZ	6	1	External	2013	2020	Quarterly
DAS	11	2	External	1998	2020	Quarterly
DCBS	10	1	Internal	1999	2022	Minimum 2X annually
DEQ	7	2	External	2021	2021	Quarterly
DOC	5	3	External	2009	2020	Quarterly
DOJ	8	1	Internal	2007	2022	Quarterly
DOR	7	4	External	2005	2022	Quarterly
DSL	N/A	N/A	N/A	N/A	N/A	N/A
HECC	6	4	External	2020	2020	Quarterly
OCB	3	1	N/A	2021	2021	As Needed
ODA	N/A	N/A	N/A	N/A	N/A	N/A
ODE	8	6	External	2004	2021	Quarterly
ODF	6	3	Internal	2016	2020	Quarterly
ODFW	9	2	Internal	2017	2019	Quarterly
ODSH/OHA	18	3	External	1997	2021	Every Other Month
ODOE	5	3	External	2014	2021	3 X a Year
ODOT	5	5	External	2001	2021	Bi-Monthly
ODVA	6	4	External	2020	2020	Every Other Month
OED	12	2	Internal	2001	2022	Quarterly
OHCS	6	1	N/A	2020	2021	Quarterly
OJD	9	1	Multiple	1995	2019	Quarterly
OLCC	3	1	Internal	2007	2019	Quarterly
OMD	5	0	Internal	2011	2020	3 X a Year
OPDS	10	6	N/A	2022	2022	Quarterly
OPRD	5	3	Internal	2022	2022	2 to 3X annually
OSL	7	2	External	1999	2021	Quarterly
OSP	0	0	N/A	2008	2018	Annually
OST	N/A	N/A	N/A	N/A	N/A	N/A
OWEB	N/A	N/A	N/A	N/A	N/A	N/A
OYA	0	0	N/A	2011	2019	Quarterly
PERS	3	3	External	2004	2020	3 X a Year
PUC	4	0	Internal	2018	2018	Annually
WRD	N/A	N/A	N/A	N/A	N/A	N/A

## Appendix F

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
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
ODHS	Oregon Department of Human Services
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
OPDS	Office of Public Defense Services
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 G



### 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]

**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:

- (1) Standards for internal audits that are consistent with and incorporate commonly recognized industry standards and practices; and
- (2) 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) Assurance Audit Services: An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization. Examples may include financial, performance, compliance, system security, and due diligence engagements.
- (3) Consultation Audit Services: Advisory and related client services activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation, and training.
- (4) 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.
- (5) 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.
- (6) 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.
- (7) Internal Audit Services: Specific activities provided by auditors within the internal audit function. Examples include risk assessments, assurance audit services, and internal audit plans.
- (8) 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.
- (9) 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.

- (10) 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).
- (11) Risk Assessment: A process of identifying, analyzing, and prioritizing risks to the achievement of an agency's mission, goals, or objectives.
- (12) 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.
- (13) Cash Equivalents: Cash equivalents are the total value of cash on hand that includes items that are similar to cash; low-risk securities include U.S. government T-bills, bank CD's, bankers' acceptance, corporate commercial paper, and other money market instruments. For the purpose of this rule the amount reflected in Oregon Accounting Manual GL3100 will be used.
- (14) Audit Plan (Risk Based): A Plan to determine the priorities of the internal audit function, consistent with the agency's goals.
- (15) Quality Assurance and Improvement Plan (QAIP): An evaluation of whether the internal audit activity is in conformance with professional standards.
- (16) External Assessment: An assessment by a qualified, independent assessor or assessment team from outside the organization in the form of a full external assessment or an internal assessment with external validation.
- (17) Independence: Freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner.
- (18) Objectivity: An impartial, unbiased attitude and avoidance of conflicts of interest.
- (19) Cash Revenue: Any and all cash income realized as a result of operating activities calculated in accordance with generally accepted accounting principles.

## **125-700-0125**

### **Internal Auditing Requirements**

- (1) Agencies that meets two or more of the criteria below for the last two consecutive biennium, the agency head shall establish, maintain, and fully support an internal audit function within existing resources. Agencies may outsource some internal audit activities if the agency determines that it is more cost efficient and meets OAR 125-700-0126.
- (a) Total biennial expenditures exceed \$200 million.
  - (b) Number or full-time equivalent employees exceeds 400 reflected in the Legislative Adopted Budget.
  - (c) Dollar value of cash revenue and cash equivalent items received and processed annually exceeds \$20 million as reflected in GL 3100.
  - (d) Agencies that are being funded over 50% from accounts in "other funds" and/or "federal funds" reflected in the Legislative Adopted Budget.
- (2) For agencies that meet the requirement of this OAR, the internal audit function shall be staffed with a minimum of 1 FTE. This position shall be budgeted and maintained at the Chief Audit Executive level. Subsequent FTE may be budgeted at lower positions and reports to the Chief Audit Executive.
- (3) Exceptions to having an internal audit function 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.
- (4) For agencies not meeting the criteria above, an internal audit function is encouraged. Agencies that have an internal audit function must follow this OAR.

**Agency Internal Audit Function Governance**

- (1) Agency internal audit functions shall be governed by appropriate professional auditing standards such as The Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) or the Generally Accepted Government Auditing Standards (GAGAS) of the United States Government Accountability Office (GAO).
- (2) To help ensure the integrity of the internal audit process, agency management shall take reasonable steps necessary to support the internal audit function in complying with the selected professional auditing standards. This may include obtaining audit related certifications, continuing professional education training and membership to professional auditing associations.
- (3) The agency's internal audit charter shall formally define the internal audit function's purpose, authority, responsibility, and the professional auditing standards the function will follow. The internal audit charter must be approved and periodically reviewed by the audit committee and agency senior management.
- (4) Internal audit staff shall have unrestricted access to all systems, processes, operations, functions, data, personnel, 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. The primary purpose of the audit committee is to enhance the quality and independence of the internal audit function, thereby helping ensure the integrity of the internal audit process. This is achieved at minimum by:
  - (a) Having a formal, written charter that establishes the audit committee's mandate, authority, and functional reporting relationship including the roles and responsibilities of the audit committee and its members. The charter must be approved and periodically reviewed by the audit committee and agency head.
  - (b) Include at least one qualified external member that is independent of agency management on the audit committee to enhance public accountability and transparency and increase independence of the internal audit activity.
  - (c) If the agency has a governing board or commission, the audit committee must include at least one board or commission member. This member can be used to meet the requirement listed in "(b)" above.
  - (d) The audit committee shall approve the risk-based internal audit plan. The audit committee shall also review internal audit reports on the progress of internal and external audit report 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.

**Planning and Reporting Responsibilities**

- (1) Each agency's Chief Audit Executive shall prepare an agency-wide risk assessment in accordance with audit standards.
- (2) Each agency's Chief Audit Executive shall prepare an audit plan of engagements based on the most recent risk assessment. The plan should reflect the priorities of the internal audit function and be consistent with the agency's goals. Plan shall be reviewed and approved by the audit committee, along with any significant modifications to the plan. At least one risk-based audit shall be selected from the audit plan and performed annually,
- (3) 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, diversity/equity/inclusion, 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.
- (4) Each agency's Chief Audit Executive shall provide information on the activities performed by the internal audit function covering the time period of July 1 through June 30 of the preceding year; to the Oregon Department of Administrative Services.

(a) The required information shall be submitted to the Oregon Department of Administrative Services no later than September 30th of each year and be included in the Statewide Annual Report on Internal Audit Activities.

(b) The information may include, but not be limited to:

(A) Staff Information such as education, certification, training, etc.

(B) Quality Assurance Reviews

(C) Audit Committee makeup

(D) Audit and/or Consulting Engagements performed

(E) Chief Audit Executive Reporting Structure

(F) Risk Assessments and Audit Plans

(G) Internal Audit Function Performance Measures

(c) Information not included in an agency's report must be available for review upon request of the Oregon Department of Administrative Services.

(d) Agencies shall provide DAS with supporting documentation related to submitted information upon request.

(5) The agency's Chief Audit Executive must periodically assess whether the purpose, authority, and responsibility, as defined in the audit charter, and resources required to accomplish the work continue to be adequate to enable the internal audit staff to accomplish their objectives. The result of this periodic assessment must be communicated to the audit committee and, if applicable, senior management.

(6) Completed risk assessments and internal audits need to be filed with the Audits Division of the Office of the Secretary of State.

## **125-700-0145**

### **External Review**

(1) Agency internal audit functions must have an external assessment to determine whether the function is operating in accordance with professional auditing standards. The frequency of external assessments are pre-defined by professional auditing standards.

(2) A copy of the external assessment report will be provided to the audit committee and to the Internal Audit Section of the Oregon Department of Administrative Services.

(3) Agency internal audit functions may have the assessment performed by either of the following means:

(a) an interagency program administered by the Department of Administrative Services Statewide Coordinator Internal Audit Function;

(b) an independent contracted provider or;

(c) a self-assessment with independent external validation.

## **125-700-0150**

### **Internal Audit Independence**

(1) In order to maximize both independence and objectivity of the audit function and allow the internal audit function to fulfill its responsibilities, the agency Chief Audit Executive must report functionally to the agency audit committee, and administratively to the agency Director, Deputy Director, or equivalent.

(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 may not defer ultimate judgement on audit matters to others and must be free to obtain advice and information from sources inside and outside the agency. To be effective in their role, the Chief Audit Executive should be a non-voting member of the agency's senior management team and attend Executive/Leadership team meetings.

(3) The internal audit function must be free from interference in determining the scope of internal auditing, performing work and communicating results. The Chief Audit Executive must disclose such interference to the audit committee and discuss the implications.

(4) The internal audit function must be free of any operational and management responsibilities that would impair its ability to make independent reviews of all aspects of the agency's operations.

(5) Where the Chief audit executive has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards must be in place to limit impairments to independence or objectivity.

(6) 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.