

Annual Report on Statewide Internal Audit Activities Fiscal Year 2023



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

Following is the 2023 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 2022 to June 2023 (FY 2023), 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 especially want to say thank you to everyone for assisting in developing the Audit Accountability Project for the Governor's Expectation report. Findings will be included in the March 2024 report.

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

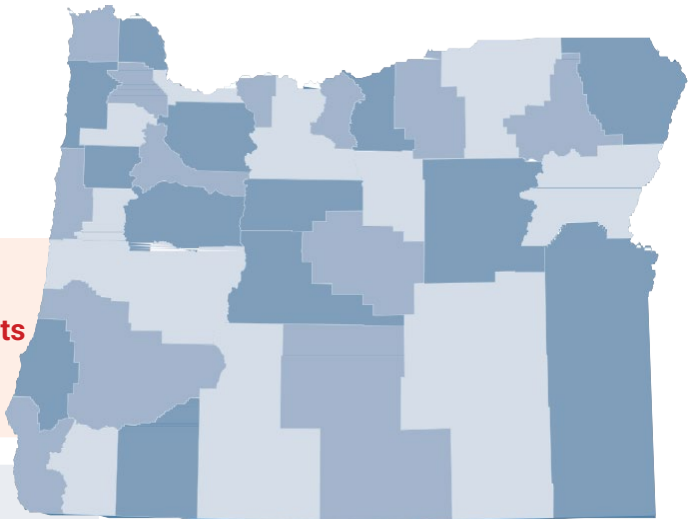
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Executive Summary

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 **70 audits** and **50 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.

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.



Quality Assurance Reviews:

Two agencies had an **external quality review** in FY 2023. Both agencies received the highest rating "generally conforms."



Education:

29 state internal auditors hold **advanced degrees**; a **combined total of 68 professional designations** are held by internal auditors.



Training:

State internal audit professionals completed over **1,673 hours** of training during FY 2023.

Examples of Risk Categories

- Compliance/Regulatory
- Control
- Customer
- Operational
- Reporting
- Financial
- Fraud
- Information Technology
- Reputation/Political
- DEIB



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.**

Overview of Internal Audits in State Government

During FY 2023, 28 agencies maintained an internal audit function. One agency had approved FTE but made the decision to contract out the audit program through an agreement with Portland State University. Two agencies reported using contracted vendors for some internal audit work, spending approximately \$111,409.56. Six agencies received exceptions 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 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

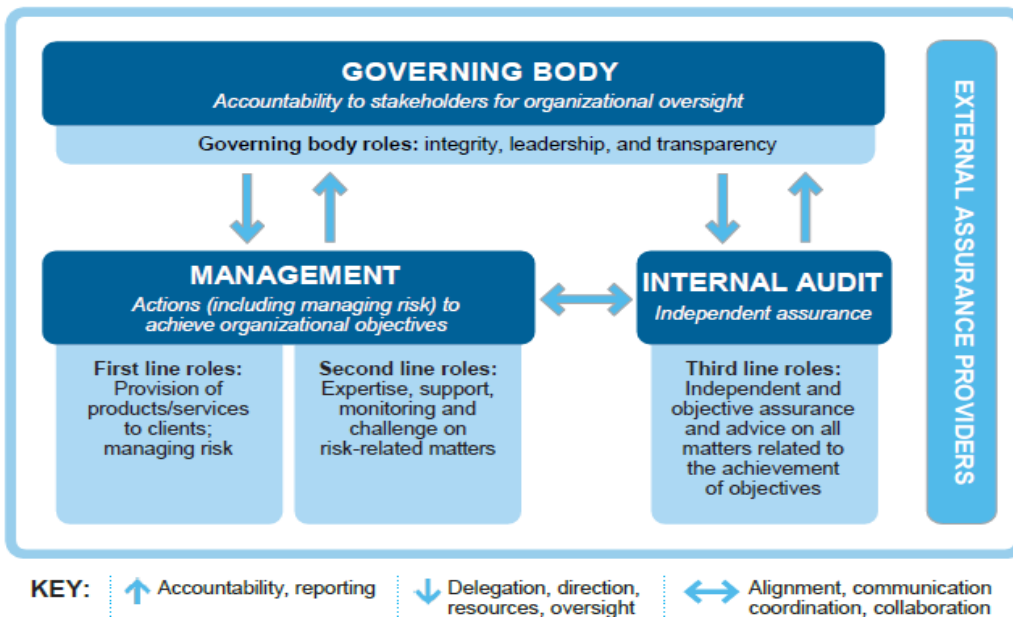
GAO auditing in accordance with standards:

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.

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.

The IIA's Three Lines Model



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 assisting DAS in creating a process of collecting data for the Governors Expectation Report on Audit Accountability.

Efforts and Accomplishments

Agency internal audit functions reported completing 70 audits in FY 2023 and an additional 50 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 70 audits completed by the state's internal audit functions, refer to Appendix C. There were a number of agencies that were not able to conduct a risk-based audit during the fiscal year but are on track to complete at least one by the end of the calendar year. An addendum to this report will be attached in February with that information.

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 D 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.

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.

Two agency functions received an external quality assurance review in FY 2023 and used the reciprocal program. Team members performing these reviews came from the University of Oregon, DOR, ODHS/OHA PERS, ODFW, DOC and HECC.

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 1,673 hours of training completed by internal audit staff in FY 2023.

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 59 professionals dedicated to an internal audit function at the close of FY 2023, there was a combined total of 68 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, 29 of the 59 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	6/30/2023	Yes	2021	N/A
DAS	Agency IA Function	2	8/1/2022	Yes	2023	2011 / GC
DCBS	Agency IA Function	1	6/30/2023	Yes	2023	2023/ GC
DEQ	Agency IA Function	1*	9/27/2021	No**	2022	N/A
DOC	Agency IA Function	3	7/14/2023	Yes	2022	2021 / GC
DOJ	Agency IA Function	2^	6/29/2023	Yes	2023	N/A
DOR	Agency IA Function	2	5/18/2022	Yes	2023	2021 / GC
HECC	Agency IA Function	1	9/21/2023	Yes	N/A	N/A
OCB	Agency IA Function	1	9/23/2022	Yes	N/A	N/A
ODE	Agency IA Function	1	12/01/2022	Yes	2023	2020 / GC
ODEM	Agency IA Function	1	1/18/2023	Yes^^	N/A	N/A
ODF	Agency IA Function	1	6/15/2021	Yes	2021	2022 / GC
ODFW	Agency IA Function	1	6/06/2023	Yes	2023	N/A
ODHS/OHA	Agency IA Function	11	7/12/2022	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	2023	2021 / Passed
ODVA	Agency IA Function	1*	5/1/2022	No	2018	N/A
OED	Agency IA Function	1	6/29/2023	Yes	2023	2023 / GC
OHCS	Agency IA Function	1	12/02/2022	Yes	2023	N/A
OJD	Agency IA Function	2	10/26/2022	Yes	2023	2021 / GC
OLCC	Agency IA Function	1	6/08/2023	Yes	2023	N/A
OMD	Agency IA Function	1	9/28/2023	Yes	2023	N/A
OPDS	Agency IA Function	2	10/13/2023	Yes	2023	N/A
OPRD	Agency IA Function	1*	4/24/2023	Yes	2023	2019 / GC
OSL	Agency IA Function	3	1/20/2023	Yes	2023	2020 / GC
OSP	Agency IA Function	1	6/30/2023	No**	2017	2018 / GC
OST	Agency IA Function	3	8/09/2023	Yes	2023	N/A
OYA	Agency IA Function	1	3/03/2021	No**	2018	2019 / GC
PERS	Agency IA Function	4	4/03/2023	Yes	2023	2021 / GC

^ DOJ has one filled position and one open position.

^^ ODEM completed a risk-based audit for the calendar year.

*DEQ, ODVA and OPRD had open positions for FY 2023. OPRD contracted out for audit work.

**OYA are on track to complete a risk-based audit by the end of the calendar year. For OMD and DEQ an audit was completed but not part of the risk assessment. OSP had an open position until May 2023.

***ODOE was granted an exception to 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	10	0	N/A	N	N/A	N/A
ODA	DAS Approved Exception	7	0	N/A	N	N/A	N/A
OWEB	DAS Approved Exception	5	0	N/A	N	N/A	N/A
PUC	DAS Approved Exception	14	0	N/A	N	2018	N/A
WRD	DAS Approved Exception	6	0	N/A	N	N/A	N/A

Appendix C

Audit Reports Issued for Fiscal Year 7/1/2022– 6/30/2023	
Agency	Audit Report Name
BIZ	Oregon Arts Commission and Oregon Cultural Trust Program Delivery & Staffing
	Certification Office for Business Inclusion and Diversity (COBID) Effectiveness and Efficiency
DAS	DAS Application Management Audit
DCBS	Diversity, Equity, and Inclusion Program Evaluation
	DCBS IA Program: Full Quality Assessment Audit
DEQ	DEQ Laboratory Audit
DOC	AIC Community Work Crews
	South Fork Action Plan
	Procurement of OCE Products
DOJ	Oregon Department of Justice Legal Fund Sample Transactions Review
DOR	Business Continuity (COOP) Gap Analysis
	Business Division Governance Audit
	Business/CORP Section Settlements
	Personal Income Tax Division Governance Audit
	Employee Training Hours Analysis
HECC	Private Career Schools Audit
OCB	Business Practices Monitoring
ODE	Information Technology Governance Audit
ODEM	Grants Accounting Audit – Completed for Calendar Year 2023
ODF	SPOTS Card Audit
ODFW	Wildfire Preparedness
	Online Task Tracking Information System
	Controlled Hunt Draw
	Land Management
ODHS/OHA	OHA: Americans with Disabilities Act Accommodations
	OHA: Employee Well-Being
	ODHS: Field-Based Contracting
ODOT	DAS State Procurement Office Delegation Agreement 639-11
	Consultant Oversight in Project Delivery
	Weight-Mile Tax Audits Have Strong Collection Rate
	Project Development Improvement Initiative Implemented Successfully
	Amtrak Cascades Cost Sharing
OED	2022-2023 Public Records Request Audit
OHCS	DOJ Fees Audit
	HAF Audit
OJD	2022-4 Douglas Change of TCA
	2022-4a Douglas Technology Assessment
	2023-1 Grants Administration
	2023-2 Linn Internal Controls
	2023-2a Linn Technology Assessment
OLCC	Performance Measures
	Privilege Tax Audit Process
OMD	Grants Pass ASLEP Review

OPDS	Performance Audit of the Crisis Communication Program
	Internal Financial Audit of an Ex-Director's Expenses
	Follow-up Audit of the Implementation Status of all Fiscal Year 2023 audit Recommendations
OPRD	GO Bond Governance Audit Report
OSL	Employee Recruitment and Background Check Process Audit Memo
	Internal Operating Policies Development and Administration Memo
	IT Vendor Risk Management Review
	External Safety Incident Response and Management Memo
	Change of Director Review Memo
	Modern Work Environment Risk Assessment Memo
OST	PMO Audit
	Procurement and Contract Admin Audit
	Portfolio Risk & Research Audit
	Investment Managers' Contract Management Audit
	Oregon Treasury Savings Network Audit
PERS	Pension Spiking Analysis
	IT Quality Assurance Follow-up
	Request for Change
	Benefit Calculations (FY 22)
	Employer Data (FY 22)
	Legislation Implementation
	Divorce Calculations
	IT Service Management

Appendix D

Consulting Engagements in Fiscal Year 7/1/2022 – 6/30/2023	
Agency	Consulting Review Topic
DAS	Review of the Draft Copy of Executive Order #17-11
	Enterprise Grant Concept
	Strategic Planning Steering Committee
DCBS	Strategic Planning
	Risk Identification and Assessment
	Committee Consultations
DOC	OSP Activities Review
	Change of Director Review
DOJ	Oregon Department of Justice Legal Fund Review
DOR	Active Directory – Separation of Duties
	Remote Capture Review
OCB	Agency Head Review
	Internal Control Manual
	RSA Monitoring Review – Liaison
ODEM	Subrecipient Monitoring
ODF	OregonBuys Access Controls
	Peer Support Policy and Contract
ODFW	Facilitation – Administrative Performance Measure Review
	IT Application Risk Assessment
ODHS/OHA	Estate Administration Unit
ODOE	Arch Insurance Companies
	Banco Santander ND
	Key Bank
	Heat Pump Programs – Risk and Controls Advisory Engagement
OJD	Cash Controls
	Payroll
OMD	SF270 Process
OPRD	GO Bond Consulting – Phase 1
	Vendor Master File – Consulting Review
OSL	Internal Audit 2 nd Quarterly Scan of Drawing Results Memo
	Internal Audit 3 rd Quarterly Scan of Drawing Results Memo
	Internal Audit Participation in the October 2022 Video Lottery Application Selection Drawing Memo
	Internal Audit 4 th Quarterly Scan of Drawing Results Memo
	Internal Audit Participation in the January 2023 Video Lottery Application Selection Drawing Memo
	Internal Audit Participation in the 2023 Raffle Drawing Memo
OYA	Internal Audit Review of the Ineligible Player List Management Process Memo
	Internal Audit 1 st Quarter Scan of Drawing Results Memo
	Cultural Services for Youth
PERS	PREA Training
	PERS Health Insurance Administrative Fees

Appendix E

Internal Audit Committee (IAC) Components						
Agency	IAC Members Total	IAC External Members	Chair	IAC Formed	IAC Approved Charter	IAC Meeting Timeframe
BIZ	9	2	External	2013	2020	Quarterly
DAS	10	2	External	1998	2020	Quarterly
DCBS	10	1	Internal	1999	2022	Minimum 3X Annually
DEQ	7	2	External	2021	2021	Quarterly
DOC	5	3	External	2009	2020	Quarterly
DOJ	8	1	Internal	2007	2023	Bi-Monthly
DOR	9	5	External	2005	2022	Quarterly
DSL	N/A	N/A	N/A	N/A	N/A	N/A
HECC	5	3	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	7	5	External	2004	2021	Quarterly
ODEM	5	2	N/A	2023	2023	Quarterly
ODF	7	2	Internal	2016	2023	Quarterly
ODFW	9	2	Internal	2017	2023	Quarterly
ODSH/OHA	22	3	External	1997	2022	Every Other Month
ODOE	5	2	N/A	2014	2023	3 X a Year
ODOT	5	5	External	2001	2021	Bi-Monthly
ODVA	0	0	N/A	2020	2020	Every Other Month
OED	15	2	Multiple	2001	2022	Quarterly
OHCS	7	0	Internal	2021	2021	Quarterly
OJD	9	1	Internal	1995	2022	Quarterly
OLCC	6	3	External	2007	2022	Quarterly
OMD	11	1	Internal	2011	2023	3 X a Year
OPDS	9	5	External	2022	2022	Quarterly
OPRD	4	3	External	2022	2022	2 to 3X annually
OSL	7	2	External	1999	2021	Quarterly
OSP	5	1	External	2008	2023	Quarterly
OST	5	3	External	2023	2023	Quarterly
OWEB	N/A	N/A	N/A	N/A	N/A	N/A
OYA	5	3	External	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
ODEM	Oregon Department of Emergency Management
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]

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:

- (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.

125-700-0135

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.

125-700-0140

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.