

2024-25 Audit Plan

Kip Memmott, Audits Division Director
Joint Committee on Legislative Audits, February 19, 2024

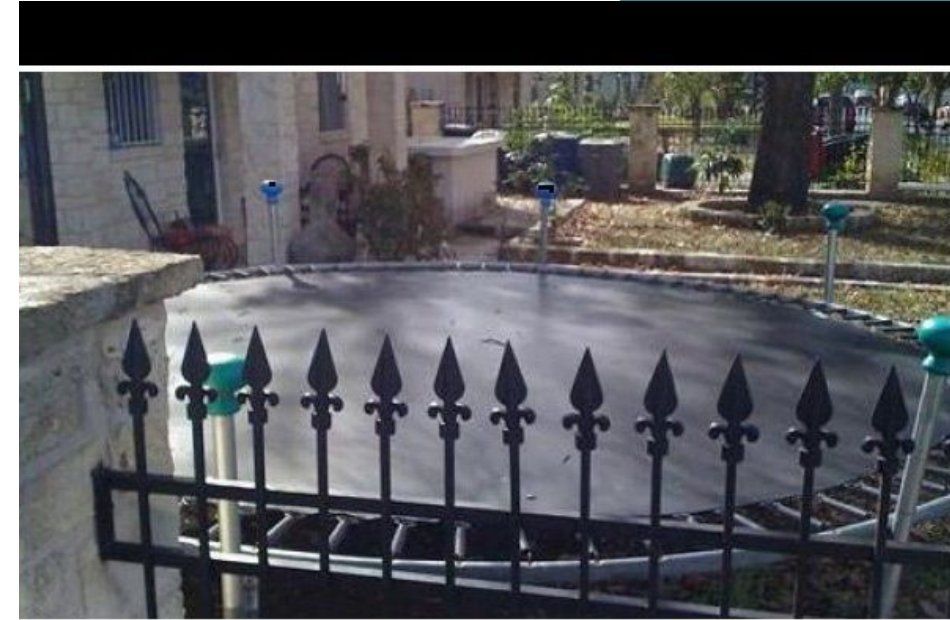


What's new about this year's plan

- Audit Plan Risk Assessment Process Enhancement Underway
- Purpose of Audit Plan Risk Assessment
- Government Auditing Standards Silent
- Elected State Auditor vis-a-vis Legislative Audit Models
- Ambiguities as to the role of the Secretary as the “State Auditor” – Audit Division Independence Risks - “Red Line Talks”
- Key SOS Audit Division Tenets – Transparency, Accountability, Independence, Cost-Benefit, Audit Value
- SOS sponsored legislation requiring Audit Division to publish an annual audit plan for transparency and accountability
- Cost-Benefit Considerations – Risk Over Quantification Fallacy
- Audit Division Capacity (approximately 8-10 discretionary performance and IT combined audits annually)
- Legislatively Mandated Audits (M110, M98), Legislatively Requested Audits
- Audit Risk Coverage vis-à-vis State Risk Profile
 - (> 1% by any measure)
 - No new state auditor positions for over 30 years
- Specific SOS Audit Division risk assessment enhancement strategies

Risk assessment enhancement plan

- Enhanced auditor independence – greater reliance on auditor professional judgment and experience
- Audit team-centric model subject matter audit teams, under the lead of managers, were responsible for identifying, ranking, and proposing audits for inclusion in the 2024-25 audit plan
- Greater audit plan transparency - each audit in the plan clearly states the origin and purpose of the audit
- Internal Audit Division work group
 - Auditing Standards Review (e.g., Institute of Internal Auditors Red Book)
 - Benchmark and Leading Practices Research
 - Full Documentation of OAD Risk Assessment Process
- External audit consults – consulting with a select group of Oregon local government and state agency chief audit executives
- Formal memorandum for Secretary of State summarizing risk assessment enhancement outcomes
- Fully Brief JLAC on Risk Assessment Enhancements



RISK MANAGEMENT
you're doing it wrong

New performance and IT audits

Bureau of Labor and Industries Governance

Department of Corrections Operations

Emergency Management Time Accounting Practices

High School Graduation and College and Career Readiness Act (Measure 98)

Measure 110 Program Effectiveness

Statewide Contracting Practices

State Data Center Operations and Controls

Oregon Judicial Department Cybersecurity Controls

New financial audits

Statewide Single Audit, financial and federal

Annual financial statement audits:

Oregon State Treasury: Short-Term, Local Government Investment Fund, Intermediate Term Pool

Oregon Business Development Department: Special Public Works Fund and Water Fund

Oregon Department of Energy: Small Scale Energy Loan Program

Department of Environmental Quality: Clean Water Revolving Fund

Oregon Department of Higher Education: High School Graduation and College and Career Readiness Fund (biennial audit)

Oregon Health Authority: Oregon Health Insurance Marketplace

Oregon Housing and Community Services

Oregon State Lottery

Oregon Department of Veterans' Affairs

Rollover audits from the 2023-24 plan

- Boards and Commissions Governance High Risk Report
- Behavioral Health Crisis Services and Crisis Response
- New Agency Governance and Controls at the Department of Early Learning and Care
- Cybersecurity Controls at the Oregon Department of Justice
- Universal Health Care Administrative Costs and Time Tax Risks at the Oregon Health Authority, Oregon Department of Human Services
- Oregon License Issuance and Vehicle Registration System (OLIVR) Controls at the Oregon Department of Transportation
- Integrated Eligibility (ONE) System Controls at the Oregon Department of Human Services, Oregon Health Authority

SECRETARY OF STATE

Oregon Annual Comprehensive Financial Report



Fiscal Year 2023

ACFR overview

- Primary financial audit for our office
- Involves all financial auditors for up to 7 months
- Audit work performed at 25 state agencies
- Department of Administrative Services (DAS) responsible for preparing the financial statements
- Clean Opinion - findings will be published in Statewide Single Audit Report usually issued by end of March.
- Keeping Oregon Accountable Report – Summary of Findings and Adjustments
- More complex audit than ever – no new financial audit positions for over 30 years
- Recognize DAS CFO, Statewide Accounting Manager and Agency Financial Personnel for work and collaboration

ACFR Opinion Units

Government-Wide Statements – excludes fiduciary and component units

- Governmental activities
- Business-Type activities

Major Governmental Funds

- General Fund
- Health and Social Services
- Public Transportation
- Educational Support
- Common School

Major Enterprise Funds

- Housing and Community Services
- Veterans' Loan
- Lottery Operations
- Unemployment Compensation

Other

- Aggregate Remaining (all other funds not included above)
- Discretely Presented Component Units (not state agencies e.g. SAIF, OHSU and other universities) – rely on work of other audit firms

List of state agencies where financial audit work performed

Department of Human Services

Oregon Health Authority

Department of Revenue

Oregon Department of Transportation

Oregon Education Department

Higher Education Coordinating Commission

Department of Administrative Services

Department of Consumer and Business Services

Oregon Liquor Control Commission

Department of Environmental Quality

Oregon Department of Forestry

Oregon Department of Fish and Wildlife

Oregon Military Department

Department of Corrections

Office of Public Defense Services

Department of Justice

Oregon Judicial Department

Oregon Department of Emergency Assistance

Oregon Business Development Department

Oregon Employment Department

Oregon Housing and Community Department

Department of Veterans' Affairs

Oregon State Lottery

Oregon State Treasury

Department of State Lands (contract – Common School Fund)

Public Employees Retirement System (contract audit)

Dollars audited by primary financial statement category

Governmental and Business Type Activities

- Assets – over \$60 billion
- Liabilities – over \$26 billion
- Revenues – over \$40 billion
- Expenses – over \$35 billion

SECRETARY OF STATE

Audit of the Oregon Lottery



Annual Comprehensive Financial Report Fiscal Year 2023

Audit methodology

- Risk-based auditing approach
 - Understanding of processes and controls
 - Selection of material accounts
 - Benchmark: 3% Operating Revenues

Operating Revenues

Sales:

Video Lottery SM (Net Receipts)	\$ 1,181,773,978
Sports Wagering (Net Receipts)	55,258,144
Scratch-its SM Instant Tickets (Net of Returns)	157,960,917
Keno	109,091,865
Powerball [®]	75,941,748
Megabucks SM	31,200,704
Mega Millions [®]	55,776,122
Raffle SM	2,499,850
Win For Life SM	4,467,126
Lucky Lines SM	1,740,608
Pick 4 SM	1,946,679
Provision for Uncollectibles	(4,939)
Other Income	600,041
Total Operating Revenues	<u>1,678,252,843</u>

Audit methodology

- Risk-based auditing approach
 - Understanding of processes and controls
 - Selection of material accounts
 - Benchmark: 3% Operating Revenues
 - Review and testing of detail transactions and documentation
 - Cash, Investments, Equipment and related depreciation, Lotter Game Revenues, Prize expense and liability, Retailer commission, Salaries and Wages, Transfers to Economic Development Fund

Audit conclusion

- Our Opinion in the Independent Auditors Report
 - In our opinion, the financial statements present fairly, in all material respects, the financial position of the Oregon State Lottery, as of June 30, 2023, and the changes in its financial position and cash for the year then ended in accordance with accounting principles generally accepted in the United States of America.
- Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards
 - No internal control weaknesses identified

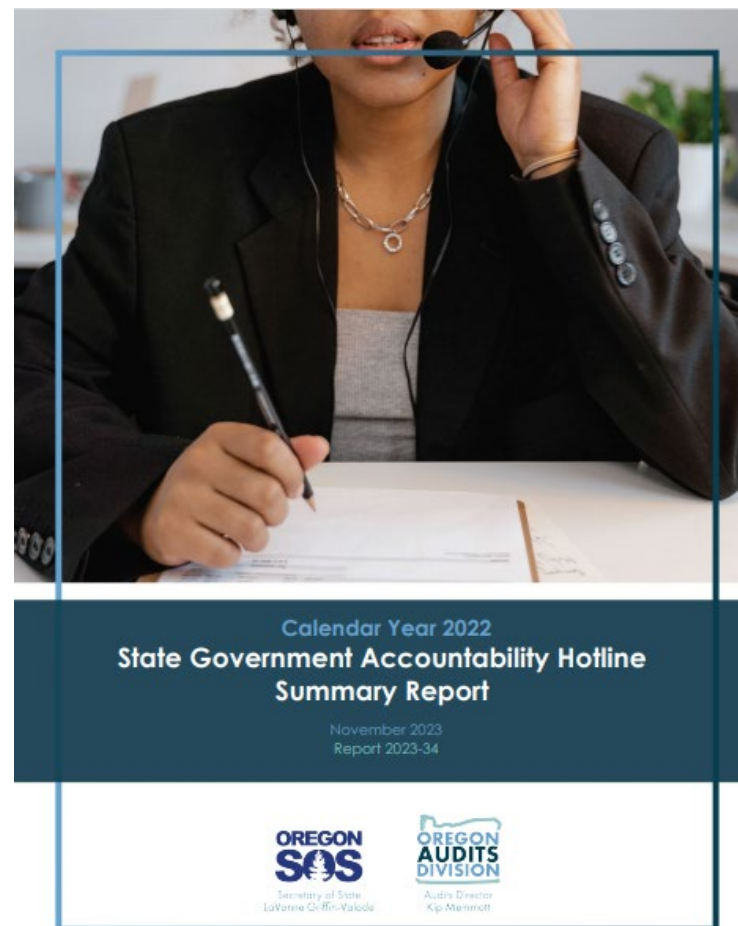
State Government Accountability Hotline: 2022 Annual Report

Kip Memmott, Audits Division Director
Joint Committee on Legislative Audits, February, 19 2024



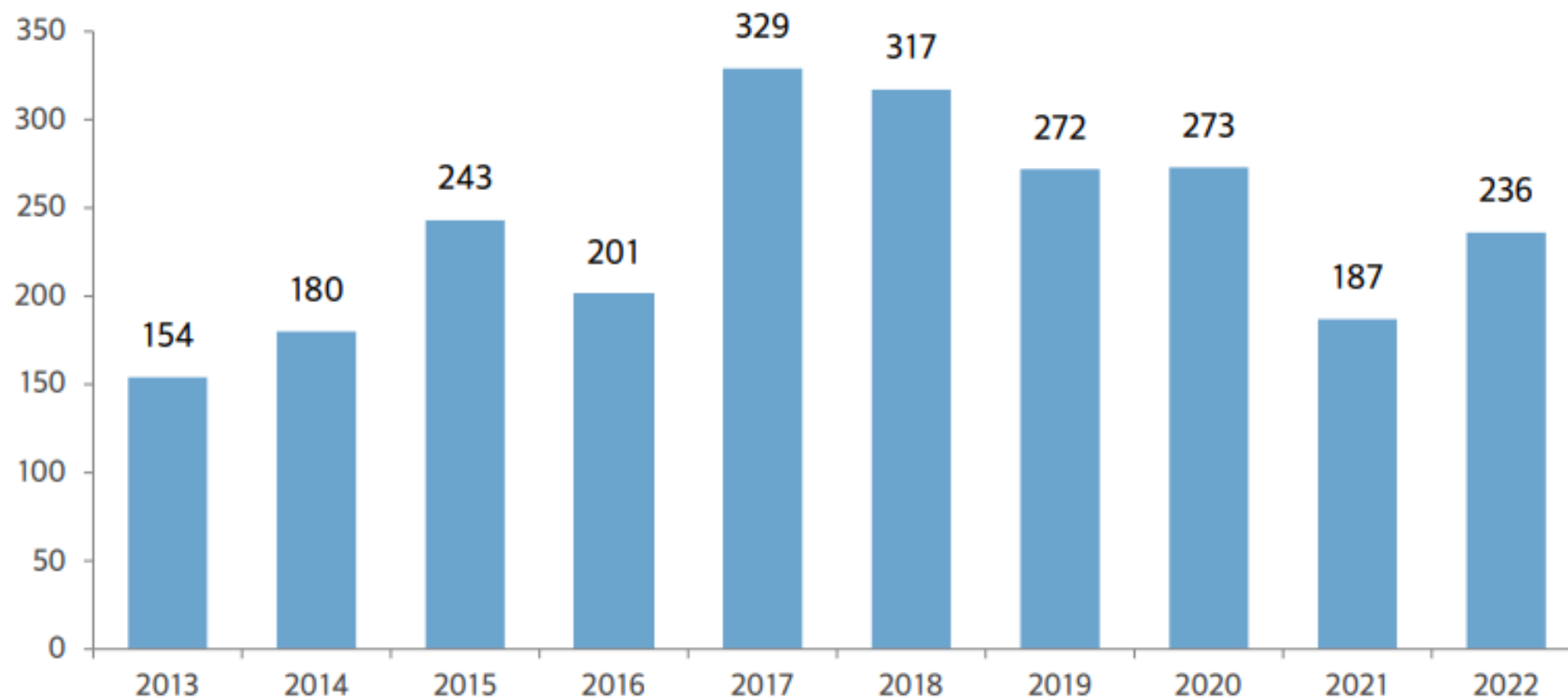
2022 Report By the Numbers

- 236 total reports
- 11 detailed investigations
- 1 substantiated fraud (\$250,000)
- \$390,000 in questioned costs
- Efficient: One manager and one lead auditor operate hotline program

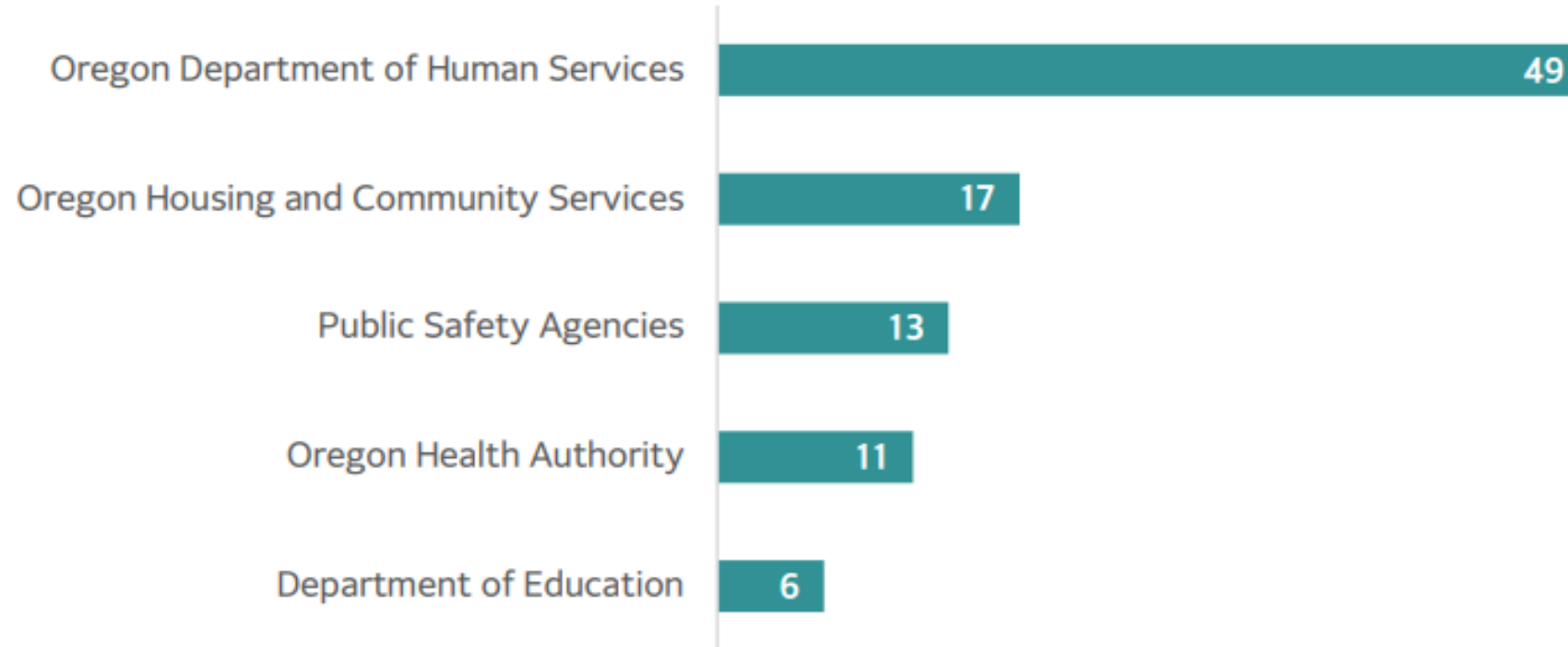


Number of reports over time

Figure 1: Number of reports made to the hotline



Reports by agency



Note: Excludes agencies with 5 or fewer reports

Reports by category

Figure 3: Over a third of all reports received in 2022 pertained to fraud, theft, or ethics.

	Description	Number of 2022 Reports	Percent of 2022 Reports
Fraud, Theft, or Ethics	Reports alleging fraud, falsification or destruction of information, embezzlement, theft, corrupt practices, conflict of interest, or kickbacks	86	36%
Business Practices	Reports concerning state business practices and public contracting, policies and procedures, pandemic response, and cost saving recommendations	58	25%
Unrelated/Insignificant	Reports determined unrelated or insignificant to state funds or resources	44	18%
Work Environment	Reports alleging improper behavior, discrimination, wrongful termination, time theft, or unsafe environments in the workplace	30	13%
Financial Management	Reports concerning accounting practices, audits, and tax issues	16	7%
Elections	Reports concerning election systems or voter fraud	2	1%
Total		236	100%

Questions?

Kip Memmott
Audits Division Director
kip.r.memmott@sos.oregon.gov

