



# **Annual Report on Statewide Internal Audit Activities**

## **Covering Fiscal Year 2011**

December 30, 2011

Compiled by the Department of Administrative Services Internal Audit Section  
Pamela J. Stroebel, Chief Audit Executive  
<http://oregon.gov/DAS/IA/>



**Oregon**

John A. Kitzhaber, MD, Governor

**Department of Administrative Services**

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December 30, 2011

Senator Peter Courtney, Senate President  
Representative Bruce Hanna, Co-Speaker of the House  
Representative Arnie Roblan, Co-Speaker of the House  
900 Court St. NE  
Salem, Oregon 97301

Re: Annual Report on Statewide Internal Audit Activities for the fiscal year ended June 30, 2011

Senator Courtney, Representative Hanna, and Representative Roblan:

It is an honor to present to you the Department of Administrative Services' (DAS) seventh annual report on statewide internal auditing activities as required by Oregon Revised Statute (ORS) 184.360 (4).

This year's report highlights an outline of a strategic direction for statewide internal audit and as in previous years contains information on the entities governing internal auditing in the state including the Statewide Audit Advisory Committee (SAAC) and agency internal audit committees. It also includes summaries of statewide internal audit activities occurring between July 1, 2010 and June 30, 2011, administrative information such as vacancies, recruiting efforts, and professional certifications of audit staff, and additional performance indicators on agency compliance with the internal audit statute and administrative rule. Tables included delineate specific activities by agency including audit reports issued, consulting engagements and other "value-added" work performed by internal audit functions.

SAAC members were provided an advance copy of this report for review. If you have questions, or would like to obtain additional information, please contact me or Pamela J. Stroebel at (503) 378-4037.

Sincerely,

Michael J. Jordan, Director

Cc: Statewide Audit Advisory Committee Members  
Directors, Deputy Directors, and Chief Audit Executives of Agencies with an Internal Audit Function

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## STRATEGIC DIRECTION FOR INTERNAL AUDIT

As with many valuable functions throughout state government, concerns have been raised recently around the sustainability of the internal audit function in state government and the way these services are currently provided across state government with limited resources available.

Various stakeholder groups including SAAC, the agency Chief Audit Executives (CAEs), and a subcommittee consisting of members of both groups as well as agency Directors and audit committee members have met over the past few months to discuss a strategic direction for internal audit throughout state government. These groups were asked to consider the following four questions:

- What constitutes good internal audit services?
- How do we provide these services across state government today?
- How should we provide these services in the future?
- What are the current issues/obstacles to providing consistent adequate and effective internal audit services across state government?

After analyzing information gathered from the sources queried, the following list depicts the planned future focus for the state's internal audit function:

1. DAS and SAAC should continue to oversee and report on statewide compliance with ORS 184.360, Oregon Administrative Rule (OAR) 125-700 and professionally recognized auditing standards.
2. The state's internal audit community should work with the state's Enterprise Leadership Team<sup>1</sup> (ELT) to develop a process to identify significant, statewide (enterprise wide) risks that should be addressed at the statewide level.
3. DAS should sponsor enterprise audits on the significant risks identified in item 2 above.
4. DAS should work with state agencies to create a collaborative model of pooled auditors to provide internal audit services to agencies without an internal audit function. Additionally, these services could be used when the State's Chief Operating Officer (COO) or ELT identifies a significant risk in an agency that is not being addressed.
5. DAS should collect, analyze and report information to assist the State's COO, SAAC, ELT, and the Legislature in monitoring the results of audits to determine if state agencies are making progress in addressing risks.
6. The state's internal audit community, through the support of DAS, SAAC, and ELT should continue to market the value of the internal audit function to state government, highlighting the importance of internal auditing as one governance tool within the overall governance structure of their organization. DAS should sponsor training for relevant audiences that will help accomplish this goal.
7. DAS should help foster the creation and maintenance of strong agency internal audit committees to continue to provide accountability and promote independence of the internal audit function.

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<sup>1</sup> The Enterprise Leadership Team (ELT) is a cabinet level group of 20-25 agency Directors formed to work collaboratively with the state's COO on enterprise management.

SAAC, with the support of DAS will continue to work with the state's internal audit community to further develop a complete strategic plan for internal audit in state government and develop plans to implement the strategies outlined above.

## **STATEWIDE INTERNAL AUDIT GOVERNANCE ATTRIBUTES**

The Institute of Internal Auditors (IIA), a globally recognized organization, defines internal auditing as 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.<sup>2</sup>

The value often derived from the internal audit function is in the birds eye perspective of an organization gained from an employee also embedded in and knowledgeable of an organization's business practices and operational culture. In addition to audit services, most internal auditors provide value-added consulting expertise in efficiency and compliance of business and operational processes and identification and assessment of risks.

ORS 184.360 dictates internal audit activities within state government be coordinated to promote effectiveness. DAS was directed to adopt rules setting standards and policies for internal audit functions within state government, which were established as OAR 125-700 Internal Auditing. Additionally, DAS is to annually submit a report to the Joint Committee on Ways and Means or the Emergency Board describing internal audit activities that have occurred in state government during the year; this report serves to meet that requirement by providing information on how agency internal audit functions are meeting the components of the law and the administrative rule.

During the Seventy-Fifth Oregon Legislative Assembly this law was revised to add requirements for Executive department agencies required to have an internal audit function to:<sup>3</sup>

- Produce risk assessments of their agencies in accordance with nationally recognized audit standards (for FY 2011 80 percent of agencies required to have a function completed this requirement);
- Use its risk assessment as the basis for the selection and performance of at least one internal audit per calendar year (for FY 2011 73 percent of agencies required to have a function completed this requirement);
- Audit a component of its governance and risk management processes at least once every five years and file a report with DAS (for FY 2011 ten agencies reported performing an audit of a governance or risk management topic); and
- File completed risk assessments and internal audit reports with the Division of Audits of the Office of the Secretary of State (DAS does not track this data).

The purpose of this law and the revisions which became effective January 1, 2010 is to increase and enhance the independence and professionalism of the internal audit function within state government.

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<sup>2</sup> International Professional Practices Framework issued January 2011

<sup>3</sup> House Bill 3139

## **STATEWIDE AUDIT ADVISORY COMMITTEE**

OAR 125-700-0120

The mission of the Statewide Audit Advisory Committee (SAAC) is to promote the benefits of professional, standards-based internal auditing services in state government. SAAC serves in an advisory capacity to the Director of DAS. It is comprised of members both internal and external to state government and meets quarterly to discuss statewide audit matters and issues of interest.

On June 30, 2011 SAAC's membership roster included:

Michael J. Jordan, Chair and DAS Director  
Gary Blackmer, Director, Oregon Audits Division  
Kingsley Click, Director, Judicial Department, (delegated to David Moon, Business and Fiscal Services Division Director)  
Michael Freudenthal, External Member (currently on sabbatical)  
Marlene Hartinger, Chief Audit Executive (CAE), Oregon Department of Transportation  
Kim Johnsen, External Member  
Theresa Masse, State Information Security Officer, DAS  
Ken Rocco, Director, Legislative Fiscal Office (delegated to Laurie Byerly, Principal Legislative Analyst)  
Jason Stanley, CAE, Public Employees Retirement System  
Satish Upadhyay, Administrative Services Division Chief, Oregon Department of Forestry  
Marc Williams, Administrative Services Division Administrator, Oregon Department of Justice; Risk Management Advisory Council representative  
Pamela J. Stroebel Valencia, CAE, DAS (Ex-Officio)

SAAC and DAS appreciate the service of the following member whose term ended during FY 2011:  
Kris Kautz, Interim Director, DAS

### **FY 2011 Committee Activities**

During FY 2011 the committee performed a self-assessment to review its structure, administration, mission and goals, and fulfillment of charter duties and responsibilities. The top three objectives for FY 2011 developed during this process are:

- 1) Work to update the charter and clarify the mission and objectives of SAAC in its role to promote and enhance professional, standards-based internal audit efforts in state government.

This work was completed and the revised Charter can be seen at:  
[http://www.oregon.gov/DAS/IA/docs/final\\_2011.pdf](http://www.oregon.gov/DAS/IA/docs/final_2011.pdf)

- 2) Seek ways for SAAC to support the efforts of agency audit committees through increased interaction and providing education/training opportunities.

In November 2010 SAAC and DAS sponsored a training event and invited an auditor and a member of each agency's audit committee. Thirty-six participants spent a day learning and discussing roles and responsibilities of audit committees and internal auditors and shared best practices.

- 3) Seek opportunities to leverage risk information as received by the Oregon Audits Division and DAS to enhance audit efforts toward agencies highest risks and seek opportunities for educating management on Enterprise Risk Management (ERM).

The DAS Internal Audit Section partnered with Risk Management and the Enterprise Security Office to develop a risk based self-assessment tool to gauge an agency's efforts regarding Enterprise Risk Management practices. The survey had specific emphasis on information security. The survey was conducted and results reported to agency's early in FY 2011. Additionally these groups in strong partnership with the Risk Management Advisory Council developed a website and brochure to support the state's ERM efforts which can be viewed at: <http://www.oregon.gov/DAS/ERM/>

Additional on-going work of the Committee and its direction to DAS includes:

- The Internal Audit OAR was revised to provide additional guidance and to simplify reporting for agencies;
- The DAS CAE continues to hold quarterly meetings in conjunction with the state CAE's to provide updates on SAAC initiatives and receive input from the state's internal audit community to bring back to SAAC; and
- In FY 2010 the state's internal audit community formed a partnership with the Atkinson Graduate School of Management at Willamette University to allow students taking a Fraud and Controls course to perform Small Purchase Order Transaction System audit work at agencies. The project provides students professional experience and introduces them to career opportunities in internal audit. It also provided required compliance review work at a low cost to state agencies; as well as the opportunity for networking and for internal auditors to gain supervisory experience. In FY 2011 the following organizations participated: State of Oregon Departments of Administrative Services, Consumer and Business Services, Fish and Wildlife, Parks and Recreation, State Lands, State Police, Public Utility Commission and the City of Salem.

### **Moving Forward**

During FY 2011 SAAC developed three priorities for FY 2012 – these items include:

- Develop a statewide strategic plan for internal audit;
- Enhance the relationship with agency audit committees; and
- Develop the role of internal audit within Enterprise Risk Management.

Additionally, the committee will continue its efforts related to:

- Compiling best practices and potential statewide issues from annual internal audit activity reporting for continuing discussions with the internal audit community;
- Continuing to review issues around recruitment and retention of internal auditors in state government; and
- Continuing outreach to support and enhance the state's internal audit community.

## **AGENCY INTERNAL AUDIT FUNCTION GOVERNANCE**

OAR 125-700-0135, 125-700-150

### **Audit Committees**

Each agency required to have an internal audit function is also required to create and maintain an audit committee to provide oversight of auditing and internal control for the agency and to help ensure the independence of the internal audit function. Agencies are encouraged to include qualified members of governing boards, commissions, individuals from outside their agency, or senior management officials not directly responsible for the internal audit function to enhance public accountability and transparency.

Twenty-seven state agencies reported having an established audit committee with an approved charter. Seventeen of these agency committees have at least one member external to the organization, seven are chaired by an external member, and membership of two committees is fully comprised of external representatives. Audit Committee sizes range from three to sixteen members and meeting frequency is

generally quarterly (five reported meeting less frequently; three meet more frequently; two committees meet as needed and one is not currently meeting).

### **Reporting Structure**

In order for the CAE to maximize objectivity, the position should report administratively to the agency head or designee and functionally to the audit committee. Of the agencies that reported to have a Chief Audit Executive or equivalent position, including contractor, all but three reported that the primary internal audit position reported to the Director or Deputy Director level position within the Agency, and had full access to the audit committee. One position was abolished during budget reductions in 2009 and three agencies did not report on the internal audit structure, one agency did not report where the contracted internal audit function reported.

Of the 27 agencies with an internal audit function, ten reported the person designated as Chief Audit Executive regularly attends high-level management and leadership meetings of the agency. An additional seven stated the Chief Audit Executive is occasionally invited or attends on an as-needed basis. Ten agencies did not report this information.

### **Standards**

Twenty (or 87 percent) of agency internal audit functions follow *International Standards for the Professional Practice of Internal Auditing* issued by the IIA. One follows *Generally Accepted Government Auditing Standards* promulgated by the United States Government Accountability Office. One agency did not report this information. Agencies who satisfy the requirement for an internal audit function with a contractor should specify professionally recognized standards to be followed in the contract; two of those agencies specified *Standards for Consulting Services* established by the American Institute of Certified Public Accountants. Internal auditors who perform audits of specific topics, such as information technology, may follow a specialized set of standards to conduct such work. Those standards should be specified in the audit report.

## **SUMMARY OF INTERNAL AUDIT ACTIVITIES FOR FY 2011** OAR 125-700-0125

Thirty agencies currently meet the criteria in OAR 125-700-0020 requiring an internal audit function (biennial expenditures exceed \$100,000,000; number of Full Time Equivalent (FTE) employees exceeds 400; or dollar value of cash items processed annually exceeds \$10,000,000).<sup>4</sup> DAS received annual activity reports from all but the Department of State Lands and the Oregon Military Department. The Oregon Military Department indicated that the internal audit function reports to the United States Property and Fiscal Officer and had been directed to no longer report as part of the State of Oregon.

Of the agencies required to have an internal audit function, twenty have an established internal audit function with formal internal audit duties assigned to audit staff. Information on these functions contained in the table below is as of June 30, 2011.

| Agency                             | Number of Budgeted IA Positions | Number of Vacancies | Annual Risk Assessment | External Assessment Year Completed/Due |
|------------------------------------|---------------------------------|---------------------|------------------------|--|
| Administrative Services            | 2 <sup>1</sup>                  | 0                   | Yes                    | 2006/ 2011                             |
| Consumer & Business Services       | 1                               | 0                   | Yes                    | 2010/2015                              |
| Corrections                        | 3                               | 0                   | Yes*                   | 2010/2015                              |
| Employment                         | 2                               | 0                   | Yes                    | 2006/2011                              |
| Energy                             | 1                               | 1                   | No                     | /2015                                  |
| Forestry                           | 1                               | 1                   | No                     | /2013                                  |
| Housing & Community Services       | 1                               | 0                   | Yes*                   | 2011/2016                              |
| Human Services/Health Authority    | 10                              | 3                   | Yes*                   | 2011/2016                              |
| Judicial Department                | 1                               | 0                   | Yes                    | 2011/2016                              |
| Justice, Department of             | 1                               | 0                   | Yes*                   | /2012                                  |
| Lottery                            | 4                               | 0                   | Yes                    | 2010/2015                              |
| Parks & Recreation                 | 1 <sup>1</sup>                  | 0                   | Yes                    | /2014                                  |
| Public Employees Retirement System | 3                               | 0                   | Yes*                   | 2011/2016                              |
| Revenue                            | 2 <sup>1</sup>                  | 0                   | Yes                    | 2010/2015                              |
| State Lands <sup>2</sup>           | 1                               | 0                   | No                     | /2012                                  |
| State Police                       | 1                               | 0                   | Yes*                   | /2013                                  |
| Transportation                     | 6                               | 1                   | Yes                    | 2009/2011                              |
| Treasury                           | 2                               | 0                   | Yes                    | 2007/2012                              |
| Oregon University System           | 11                              | 0                   | Yes                    | 2011/2016                              |
| Oregon Youth Authority             | 1                               | 0                   | Yes*                   | /2011                                  |
| <b>TOTAL</b>                       | <b>55</b>                       | <b>6</b>            |                        |  |

<sup>1</sup> In addition to regular FTE, had a developmental or intern position for at least part of the fiscal year.

<sup>2</sup> The Department of Administrative Services did not receive a report from this agency for the fiscal year.

Information included in the table is based on the last report received.

\*The date the risk assessment and/or the resulting audit plan was approved by audit committee reported fell outside FY 2011 or was not reported.

Explanation of Risk Assessment No's: Positions at the Departments of Energy and Forestry were vacant all fiscal year, both have plans to recruit in FY 2012; the Department of State Land's Annual Report was submitted after the deadline.

The remaining ten agencies are currently fulfilling OAR requirements through alternate methods as denoted in the following table (Note: these agencies do not have to fulfill the external review requirement):

| Agency                                     | Method of OAR Compliance   | Annual Risk Assessment* |
|--|--|-------------------------|
| Agriculture                                | Planning to Recruit/Outsource (never had a formal IA function)                       | No                      |
| Community Colleges & Workforce Development | Outsourced   | No                      |
| Business Oregon                            | Outsourced   | Yes                     |
| Education                                  | Planning to Recruit (vacant since 2010)  | No                      |
| Environmental Quality                      | Planning to Outsource (vacant since 2010, have utilized other staff)                 | Yes                     |
| Fish & Wildlife                            | Utilizing other Staff (.2 FTE); Planning to Recruit (never had a formal IA function) | No                      |

|   |   |             |
|---|---|-------------|
| <b>Liquor Control Commission</b>        | <b>Utilizing other Staff/Outsourced (.75 FTE)</b> | <b>Yes</b>  |
| <b>Public Utility Commission</b>        | <b>Utilizing other Staff (.2 FTE)</b>             | <b>Yes*</b> |
| <b>Oregon Student Access Commission</b> | <b>Outsourced</b>                                 | <b>Yes</b>  |
| <b>Veterans Affairs</b>                 | <b>Planning to Outsource (vacant since 2010)</b>  | <b>No</b>   |

## STAFFING

### Turnover and Recruiting

Of the 23 agencies with at least some portion of staff dedicated to the internal audit function during FY 2011, four of the agencies had open internal audit positions at the end of the FY; an additional eight agencies had at least one internal audit vacancy at some point during the year.

### FY 11 Staffing and Funding Issues by Agency:

**Department of Energy** established an internal audit function in FY 2008 with a part-time internal auditor and received an approved Policy Option Package in the 2009-2011 budget for a permanent internal audit position. The Department recruited and filled the position in December 2009; however the employee left the position in June 2010. The Department has been holding the position vacant pending the completion of an audit being conducted by the Secretary of State Audits Division in April 2011. The Department plans to recruit for an Internal Auditor in FY 2012.

**The Department of Environmental Quality** hired a temporary Internal Auditor to complete a specific risk assessment in FY 2010; an internal audit position has been approved but the agency lacks the funding to hire a full-time position. The Department continues to pursue contracting for the services or potentially sharing an internal audit position with another agency. It has met some of the OAR requirements utilizing other staff in the agency.

**The Department of Community Colleges and Workforce Development (CCWD)** and **The Department of Education (ODE)** plan to jointly recruit for one internal auditor in January 2012. This single auditor will cover both agencies, reporting to the State Board of Education and CCWD. ODE received funding for this position for the 2011-13 biennium.

**The Department of Forestry** has held a position vacant since November of 2010 due to a budget shortfall. The agency plans to jointly recruit for this position with **The Departments of Fish and Wildlife and Agriculture** sometime in 2012. This single auditor will cover all three agencies with the potential for some additional outsourcing.

### Professional Certifications and Advanced Degrees

Of the 23 agencies who reported having staff dedicated to the internal audit function during FY 2011, 20 (86 percent) reported having at least 1 staff member who held a professional designation or advanced degree (some staff members hold more than 1). The following percentages of employees hold these designated professional certifications:

|  | <u>FY 2010</u> | <u>FY 2011</u> |
|--|----------------|----------------|
| Certified Public Accountant (CPA)              | 39 percent     | 43 percent     |
| Certified Internal Auditor (CIA)               | 30 percent     | 34 percent     |
| Certified Information Systems Auditor (CISA)   | 23 percent     | 19 percent     |
| Certified Government Audit Professional (CGAP) | 12 percent     | 15 percent     |
| Certified Fraud Examiners (CFE)                | 18 percent     | 13 percent     |
| Certificate in Public Management (CPM)         | 4 percent      | 4 percent      |

Additionally two internal auditors in state government are Certified Investment Derivative Auditors.

Also within the audit community, the following percentages of employees hold advanced degrees:

|  | <u>FY 2010</u> | <u>FY 2011</u> |
|--|----------------|----------------|
| Masters in Business Administration (MBA) | 23 percent     | 21 percent     |
| Masters in Public Administration (MPA)   | 9 percent      | 11 percent     |

Additional one internal auditor in state government held a Masters Degree in Public Policy.

### **Professional Organizations**

Nearly all agencies reported that internal audit staff are members of the IIA. Auditors (or staff who perform audit services) from the Department's of Administrative Services, Corrections, Justice, Human Services, Transportation; Oregon Youth Authority and Oregon University System served on the Salem Chapter Board of the IIA during FY 2011.

Other memberships in professional organizations held by at least one internal auditor in Oregon state government include (most associated with professional certifications held or related to a specific agency's mission): Oregon Society of and American Institute of Certified Public Accountants, Oregon Public Performance Management Association, Association of Certified Fraud Examiners, Government Finance Officers Association, Information Systems Audit and Control Association, Association of Government Accountants, and Association of College and University Auditors.

## **EXTERNAL REVIEWS**

125-700-0145

State internal audit functions are required to have an external peer review in accordance with the professional standards they follow. The IIA's *International Professional Practices Framework* requires an external quality assurance review every five years and the requirement under the United States Government Accountability Office's *Generally Accepted Government Auditing Standards* is for an external review to be performed every three years.

Agencies that submitted an External Review report in FY 2011 and the results of those reviews are as follows:

- Consumer and Business Services received a ranking of Generally Conforms.
- Department of Revenue received a ranking of Partially Conforms.
- Department of Human Services/Oregon Health Authority received a ranking of Generally Conforms.
- Judicial Department received a ranking of Generally Conforms.
- Oregon Housing and Community Services received a ranking of Unqualified.
- Oregon Lottery received a ranking of Generally Conforms.
- Oregon University System received a ranking of Generally Conforms.
- Public Employees Retirement System received a ranking of Generally Conforms.

For those agencies that follow The IIA's issued standards, the Quality Assurance framework provides a system for rating conformity to those standards which consists of three categories: generally conforms, partially conforms, and does not conform.

- **Generally conforms** means that an internal audit activity has a charter, policies, and processes that are judged to be in accordance with the *Standards* in all material respects, but some opportunities for improvement may exist.

- **Partially conforms** means that practices were noted that are judged to deviate from the *Standards*, but they did not preclude the internal audit activity from performing its responsibilities in an acceptable manner.
- **Does not conform** means that deficiencies in practices were judged to be so significant as to seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities.

The Department of Administrative Services and Oregon Youth Authority will receive their external assessment by December 31, 2011.

The following agencies are out of compliance with the external review requirement:

- Department of Education – Because the internal audit function was eliminated as part of the budget reduction process, the agency’s Audit Committee determined there would be little value derived from obtaining an external quality assurance review of the function.

The IIA’s *International Professional Practices Framework* requires the CAE to develop and maintain a quality assurance and improvement program which must also include internal assessments of all aspects of the internal audit activity. The following agencies completed internal reviews during FY 2011: Justice, Business and Consumer Services, Transportation, Human Services, Employment, Judicial, Treasury, Public Employees Retirement System, Public Utility Commission; both State Police and Corrections have ongoing internal assessment processes.

## **SUMMARY OF WORK PERFORMED IN FY 2011**

125-700-0130

### **Audit Reports Issued**

Legend for Audit Report Risk Rankings Column:

Low: Overall materiality and/or impact of reported audit findings to operations are low.

Management appears to be exercising reasonable oversight of the function or program.

Medium: Overall materiality and/or impact of reported audit findings to operations are moderate.

Management has opportunities to improve its oversight.

High: Overall materiality and/or impact of reported audit findings to operations are high.

Management should take action.

Note: Auditors are not required by standards or OAR to provide risk rankings for audit reports.

| <b>Agency Name</b>                           | <b>Audit Report Name</b>   | <b>Date Issued</b> | <b>Audit Report Risk</b> |
|--|--|--------------------|--------------------------|
| Administrative Services                      | 11-01 Follow-Up of Prior Audit Recommendations   | 1/11/2011          | Medium                   |
|  | 11-02 Follow-Up of Prior Cash Handling Recommendations Assessing Progress Toward Improved Controls | 1/13/2011          | Medium                   |
|  | 11-06 Small Purchase Order Transaction System Program Audit  | 5/18/2011          | Low                      |
|  | 11-07 Surplus Inventory: Processes Could Benefit from Increased Controls                           | 5/18/2011          | Medium                   |
| Community Colleges and Workforce Development | Commissioner's Travel Expense and Payroll Review - Fiscal Year 7.1.2009 to 6.30.2010               | 4/24/2011          | Low                      |
| Consumer and Business Services               | Contract Management Follow-Up  | 6/27/2011          | Low                      |
|  | FY 10 Small Purchase Order Transaction System Card Program Review #11-01                           | 5/19/2011          | Med                      |
|  | Internal Control over Revenue Collection for Retaliatory Tax Audit Follow-up                       | 9/8/2010           | Med                      |
|  | Property Control Follow Up Review  | 9/8/2010           | Low                      |
|  | Securities Held in Trust #10-01  | 12/16/2010         | Med                      |
| Department of Corrections                    | American Recovery and Reinvestment Act   | 6/22/2011          | Low                      |
|  | Basic Corrections Course   | 2/15/2011          | Medium                   |
|  | Health Services Spending   | 8/31/2010          | High                     |
|  | Information Technology Services  | 4/18/2011          | Medium                   |
|  | Small Purchase Order Transaction System  | 11/22/2010         | Low                      |
|  | Staff Investigations   | 3/3/2011           | Medium                   |
| Department of Fish and Wildlife              | Small Purchase Order Transaction System Card Program Annual Audit                                  | 4/25/2011          | Low                      |
| Department of Justice                        | Procedures for Handling Cash and Checks (Crime Victims Services Division), Report 2011-001         | 5/15/2011          | Medium                   |
| Department of Revenue (DOR)                  | BOOST Memo   | 7/20/2010          | Medium                   |
|  | Email Archiving and Public Records Disclosure  | 10/1/2010          | Medium                   |
|  | eTime Discrepanices Report   | 10/1/2010          | Medium                   |
| DOR (cont.)                                  | Internal Audit Issues: Gresham Field Office Visit, July 20, 2010                                   | 7/20/2010          | Medium                   |

|                                     |  |            |            |
|-------------------------------------|--|------------|------------|
|                                     | Energy Center Construction   | 9/14/2010  | Not Ranked |
|                                     | Financial Aid  | 8/26/2010  | Not Ranked |
|                                     | Information Technology General Controls                              | 2/7/2011   | Not Ranked |
|                                     | NCAA Agreed-Upon Procedures  | 12/21/2010 | Not Ranked |
|                                     | NCAA Football Bowl Subdivision Attendance Certification              | 2/8/2011   | Not Ranked |
|                                     | OUS Audit Recommendations Follow-up                                  | 6/23/2011  | Not Ranked |
|                                     | Western Community Policing Institute Grant                           | 4/11/2011  | Not Ranked |
| Oregon Youth Authority              | FY 2010 Small Purchase Order Transaction System Audit                | 7/12/2011  | Low        |
|                                     | Offender Interaction Audit   | 6/22/2011  | High       |
|                                     | Reintegration and Treatment Services Audit                           | 3/3/2011   | High       |
| Parks and Recreation                | 2011 SPOTS Program Audit   | 6/30/2011  | Medium     |
| Public Employees Retirement System  | Access Management  | 6/17/2011  | High       |
|                                     | Accounts Payable   | 11/10/2010 | Low        |
|                                     | Benefit Calculation  | 9/23/2010  | Medium     |
|                                     | Death Benefits   | 3/17/2011  | Medium     |
|                                     | Disability Periodic Reviews and Contested Cases                      | 10/12/2010 | Medium     |
|                                     | SPOTS Card   | 7/14/2010  | Low        |
| Public Utility Commission of Oregon | Performance Review of Universal Service Fund 3rd Party Administrator | 5/11/2011  | Low        |
|                                     | PUC Fee Audit  | 1/7/2011   | Low        |
|                                     | Risk Assessment Tracking & Monitoring                                | 4/28/2011  | Low        |
|                                     | SPOTS Card Audit   | 5/16/2011  | Low        |
| State Police                        | 2010 Federal Grants Audit  | 12/10/2010 | Low        |
|                                     | Small Purchase Order Transaction System (SPOTS) Audit                | 5/5/2011   | Low        |

| <b>Agency Name</b>                  | <b>Audit Report Name</b>   | <b>Date Issued</b> | <b>Audit Report Risk</b> |
|-------------------------------------|--|--------------------|--------------------------|
| OUS (cont.)                         | Computer Purchases   | 6/24/2011          | Not Ranked               |
|                                     | Course Material Sales  | 12/17/2010         | Not Ranked               |
|                                     | Educational and Community Supports Payment Processing                | 6/24/2011          | Not Ranked               |
|                                     | Energy Center Construction   | 9/14/2010          | Not Ranked               |
|                                     | Financial Aid  | 8/26/2010          | Not Ranked               |
|                                     | Information Technology General Controls                              | 2/7/2011           | Not Ranked               |
|                                     | NCAA Agreed-Upon Procedures  | 12/21/2010         | Not Ranked               |
|                                     | NCAA Football Bowl Subdivision Attendance Certification              | 2/8/2011           | Not Ranked               |
|                                     | OUS Audit Recommendations Follow-up                                  | 6/23/2011          | Not Ranked               |
|                                     | Western Community Policing Institute Grant                           | 4/11/2011          | Not Ranked               |
| Oregon Youth Authority              | FY 2010 Small Purchase Order Transaction System Audit                | 7/12/2011          | Low                      |
|                                     | Offender Interaction Audit   | 6/22/2011          | High                     |
|                                     | Reintegration and Treatment Services Audit                           | 3/3/2011           | High                     |
| Parks and Recreation                | 2011 SPOTS Program Audit   | 6/30/2011          | Medium                   |
| Public Employees Retirement System  | Access Management  | 6/17/2011          | High                     |
|                                     | Accounts Payable   | 11/10/2010         | Low                      |
|                                     | Benefit Calculation  | 9/23/2010          | Medium                   |
|                                     | Death Benefits   | 3/17/2011          | Medium                   |
|                                     | Disability Periodic Reviews and Contested Cases                      | 10/12/2010         | Medium                   |
|                                     | SPOTS Card   | 7/14/2010          | Low                      |
| Public Utility Commission of Oregon | Performance Review of Universal Service Fund 3rd Party Administrator | 5/11/2011          | Low                      |
|                                     | PUC Fee Audit  | 1/7/2011           | Low                      |
|                                     | Risk Assessment Tracking & Monitoring                                | 4/28/2011          | Low                      |
|                                     | SPOTS Card Audit   | 5/16/2011          | Low                      |
| State Police                        | 2010 Federal Grants Audit  | 12/10/2010         | Low                      |
|                                     | Small Purchase Order Transaction System (SPOTS) Audit                | 5/5/2011           | High                     |

### Consulting Activities

Consulting services are advisory and related client service activities, the nature and scope of which are agreed upon with the client and which 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.

| Agency                                       | Consulting Activity   |
|--|---|
| Administrative Services                      | Internal Audit staff attend various levels of Department management meetings to provide input including Executive Team, Information Technology Governance Council, Supervisors and Managers.  |
|  | Provided two memos to management reviewing process and procedures in compliance with state policies.  |
|  | Provided a memo concluding on review conducted at a small commission on cash handling processes with recommendations for controls improvements.   |
|  | Provided six memos to management regarding process reviews making appropriate recommendations.  |
|  | Provided two memos to management regarding review of contract compliance and appropriateness.   |
|  | Provided two memos to management related to organizational structure as to meeting compliance with state policies and efficiencies.   |
|  | Regularly provide training for various levels of agency employees and management on topics including ethics, risk management and internal controls.   |
|  | Reviewed and provided input on various draft policies, strategic planning documents, and survey and assessment tools.   |
|  | Serve as the liaison with agency management on external audits.   |
| Agriculture                                  | Financial Reporting to meet federal requirements for federal programs includes approved federal indirect rate for Agriculture programs.   |
|  | Ongoing review of internal financial staff for agency adherence to travel policies and procurement policies.  |
|  | SPOTS Review conducted by internal staff for adherence to state policies regarding use of the credit card by staff  |
|  | State of Oregon review of Oregon Department of Agriculture Financials to meet state financial reporting criteria  |
|  | USDA review of Oregon Speciality Crop grant program and adherence to federal rules related to grant fund distribution. Review covered several program years   |
| Community Colleges and Workforce Development | Conduct yearly sub-recipient monitoring of CCWD local Workforce Investment Area's to determine compliance with OMB and Workforce Investment Act requirements.   |
|  | Train fiscal staff on year end financial reporting and disclosure requirements for DAS - State Controller's Office. - Provide guidance to community colleges and CCWD project manager on proper use of bond proceeds used to finance capital construction projects. - provide guidance to local federal grant sub-recipients on allocable cost principles relating to Workforce Investment Act funds. |

| <b>Agency</b>  | <b>Consulting Activity</b>   |
|--|--|
| Consumer and Business Services                                   | Multiple Consultations regarding segregation of duties, ethics and travel policies   |
|  | Review of Inter-Governmental Agreements  |
|  | Review of purchasing process improvement   |
| Department of Corrections  | Conducted Cost of Care investigations.   |
|  | Conducted fraud investigations.  |
|  | Provided data and input regarding use of Voyager cards and State owned vehicles.   |
|  | Provided guidance on application of the Oregon Ethics Law on a number of occasions.  |
|  | Sat in an independent advisory capacity on various committees (ie; IT Governance Committee).                                       |
| Department of Environmental Quality                              | DEQ Executive Management Team is working with a contractor to develop an Outcome-based Management System for performance measures. |
|  | Followed up with DEQ SPOTS program to meet minor requirements identified in 2010 SPOTS review including periodic activity reports  |
| Department of Fish and Wildlife                                  | Automated Clearing House Risk Assessment   |
|  | Director's Transaction Annual Review   |
|  | Financial Statement Close Risk Assessment  |
|  | Information Security Business Risk Assessment  |
|  | Internal Controls for the American Recovery and Reinvestment Act Risk Assessment   |
| Department of Justice (DOJ)                                      | Advice for Application of Travel Policy  |
|  | Advice on Communicating Agency-wide Policies   |
|  | Advice on ERM  |
|  | Advice on Processing Cost Recovery Payments  |
|  | Advice on Tools to Automate Collections  |
|  | Consultation on Federal Auditor Survey   |
|  | Consultation on Project Risk Assessment (Child Support System)   |
|  | Consultation/Advice for Internal Controls Review of Confidential Investigations Funds  |
|  | Consultation/Advice on Annual SPOTS Purchasing Compliance Review   |
|  | Consultation/Advice on Best Practices for Federal Audit Responses  |
|  | Consultation/Advice on Best Practices for Separation of Duties in Financial Services   |
|  | Coordination of New Audit Response Policy  |
|  | Feedback on New SPOTS Training Trial-run   |
|  | Report on State Agencies' Cost Savings   |
| Review/Comment on Draft Policy (Risk Management/Risk Assessment) |  |
| Review/Comment on Draft Policy (Safeguarding ACH Data)           |  |

| Agency  | Consulting Activity  |
|---|--|
| DOJ (cont.)                                       | Risk Assessment of Facilities Custodial Services   |
|   | Training on Risk Management and Basic Risk Analysis (Crime Victims Services Division)  |
| Department of Revenue                             | Annual Enterprise Risk Assessment Facilitation   |
|   | Annual ISBRA Reporting   |
|   | Developmental Auditor  |
|   | Disaster Recovery Pre-award  |
|   | Liaison for Secretary of State Audits  |
|   | Policies & Procedures Updates  |
|   | Timely Termination of Access   |
| Department of Transportation                      | Assessed controls over Motor Carrier sensitive inventory.  |
|   | Completed survey work in the area of public involvement.   |
|   | Coordinated with Secretary of State Audits Division.   |
|   | Facilitated enterprise risk management activities.   |
|   | Participated in external peer reviews of other states' department of transportations.  |
|   | Performed OMB Circulars A 87 & A 122 consulting.   |
|   | Provided technical advice to Public Transit Division on contracting for program and financial reviews.   |
| Dept. of Human Services / Oregon Health Authority | Blue Mountain Recovery Center Medicaid Cost Settlement Report FY 2009  |
|   | Blue Mountain Recovery Center Medicaid Cost Settlement Report FY 2010  |
|   | Office of Vocational Rehabilitation Services Job Development   |
|   | Oregon State Hospital Medicaid Cost Settlement Report FY 2009  |
|   | Oregon State Hospital Medicaid Cost Settlement Report FY 2010  |
|   | Washington County Fraud Mitigation Review  |
| Employment Department                             | Legislative Bill Review  |
|   | State Cell Phone & Blackberry Use Review   |
|   | State Vehicle Usage Review   |
|   | Trade Act - Expense Control Review Process   |
| Judicial Department                               | Provided information on risk assessments and internal controls to management   |
|   | Provided input and advice on the Oregon eCourt program   |
| Oregon Liquor Control Commission (OLCC)           | Advised Retail Operations on compliance with Payment Card Industry Data Security Standards.  |
|   | Consulting on Key Performance Measure Reporting  |
|   | Coordinated Annual Business Continuity Planning Event Test - December 2010.  |
|   | Developed a quality control tool that defined a normal range of variation for average licensing days in a given month in order to discover errors and improved data integrity. |

| <b>Agency</b>               | <b>Consulting Activity</b>   |
|-----------------------------|--|
| OLCC (cont.)                | Developed a quality control tool that defined a normal range of variation for average licensing days in a given month in order to discover errors and improved data integrity.     |
|                             | Identified and standardized sources of enforcement data to capture trends by region.   |
|                             | Issued a Management Letter on "Information and Building Security Review."  |
|                             | Reviewed and provided input on agency draft policies.  |
|                             | Strategic Planning facilitation and training resulting in a 10-Year Strategic Plan for OLCC's Public Safety program.   |
| Oregon Lottery              | Consulted regarding recommended contract administration practices for monitoring off-site staff augmentation services.   |
|                             | Consulted regarding Scratch-Its Research Project to provide feedback regarding the collection of cost information.   |
|                             | Consulted regarding the enhancement of the existing ERM process to provide feedback with respect to leading practices.   |
|                             | Consulted regarding the ERP Implementation Project to provide feedback and limited testing on the establishment of segregation of duties and user security configurations.         |
|                             | Consulted regarding the ERP System Implementation Project to provide feedback on general issues related to internal control and project risk management.                           |
|                             | Consulted regarding the Next Generation Video System Planning Project to provide feedback on the development of contract risk management options including damages and incentives. |
|                             | Consulted regarding the Star Retailer Excellence Program retention and verification processes and procedures.  |
|                             | Researched and provided feedback regarding internal control issues associated with couponing and the Video Lottery Spring Promotion.   |
|                             | Researched and provided feedback regarding other state Lottery practices for performing periodic background reviews of current employees.  |
|                             | Researched and provided feedback regarding the legal requirements and potential liabilities of using a prospective or current employee's credit reports.                           |
|                             | Reviewed and provided feedback on prize and award procedures for the Scratch-it Challenge 2011 and Star Retailer Excellence Programs.  |
|                             | Reviewed and provided feedback on Raffle drawing and witness procedures.   |
|                             | Reviewed and provided input on suggested changes to Scratch-its return procedures for possible control weaknesses.   |
|                             | Reviewed Contract Administration Training Materials to provide feedback on internal control issues.  |
|                             | Reviewed draft Contract Management Plan Materials and FAQ's to provide feedback with respect to leading practices.   |
| Oregon State Treasury (OST) | Assisted with the provision of consulting services to agencies concerning compliance with Payment Card Industry Data Security Standards (PCI DSS).                                 |
|                             | Performed a review of compliance with newly revised out-of-state travel policies and procedures.   |

| <b>Agency</b>                       | <b>Consulting Activity</b>   |
|-------------------------------------|--|
| OST (cont.)                         | Performed a site visit to OST's Custodial bank.  |
|                                     | Provided support for the external Annual Oregon Short Term Fund Opinion Audit and the Oregon State Treasury Internal Control Audit.  |
|                                     | Provided support in OST's annual review of logical and physical access.  |
|                                     | Provided travel expense evaluation support for an external review of travel expenses conducted by the Secretary of State Audits Division.  |
|                                     | Reviewed new and significantly revised information security policies and procedures.   |
| Oregon University System            | Administered the Financial Concerns Hotline  |
|                                     | Consulted and followed up on campus data security breaches   |
|                                     | Consulted with system and campus personnel on various policy issues and system design  |
|                                     | Presented internal control sessions to campuses  |
|                                     | Provided orientations to new finance committee members and key personnel   |
| Oregon Youth Authority              | Assist in Professional Standards Office Investigations   |
|                                     | Basic and Diversion Funds Follow-up  |
|                                     | Contractor Compliance Reviews  |
|                                     | Participate on Agency Process Improvement Team & Process Improvement Projects  |
| Parks and Recreation                | Participated in Oregon State Fair planning and internal audit activities.  |
| Public Employees Retirement System  | Consulting on various Business Rules and procedures  |
|                                     | Data Verification Unit Procedures Consulting   |
|                                     | Internal Controls for Earnings Crediting   |
| Public Utility Commission of Oregon | Several excellent training opportunities in auditing and related topics were provided through DAS and the local chapter of the IIA. The CAE meetings also provide a great networking resource. |
| State Police                        | 1033 Military Weapons Program consulting.  |
|                                     | COPS Grant Review Team.  |
|                                     | Gross Payroll Adjustment separation of duties HR/PR consulting.  |
|                                     | Work Zone grant Subrecipient/Transfer consulting.  |

**Other Value-Added Activities**

Internal Audit functions have added value and assisted management in making improvements to the operations and performance of the agency’s programs. In addition to the types of consulting and other activities described previously, specific examples of activities performed in FY 2011 are as follows:

| <b>Agency</b>                                | <b>Other Value Added Activity</b>  |
|--|--|
| Administrative Services                      | Audit staff provided professional training to auditors outside agency including the local chapter of the IIA; co-planned a statewide enterprise risk management forum. |
|  | Chief Audit Executive conducted trainings for audit committees in State Government per agency requests.  |
|  | Chief Audit Executive coordinated Audit Committee Training for State internal auditors and audit committee members.  |
|  | CAE facilitates SAAC and co-facilitates state CAE Council.   |
|  | Chief Audit Executive reviews Facilities Division Employee Owned Housing Report each year.   |
|  | Chief Audit Executive serves as Ex-Officio member of Risk Management Advisory Council and Friend of the Committee on Performance Excellence.                           |
|  | Chief Audit Executive serves on the IIA's Global Academic Relations Committee.   |
|  | Senior Internal Auditor lead the Quality Assurance Peer Review for the Public Employees Retirement System.   |
| Community Colleges and Workforce Development | Auditor serves on the supervisory audit committee of First Tech Federal Credit Union.  |
| Consumer and Business Services               | Asset loss communication.  |
|  | Participated on the Information Security Sub-Committee   |
|  | Provided mentoring to Willamette University student performing purchase card review.   |
|  | Served as liaison with external auditors   |
| Department of Corrections                    | Act as liaison with external auditors.   |
|  | Collected and analyzed data regarding internal metrics.  |
|  | CAE provides training to other agency auditors on the electronic audit work papers software package utilized by many state agencies.                                   |
| Department of Justice                        | Agency Audit Committee Coordination  |
|  | Board of Governors, Institute of Internal Auditors' Salem Chapter  |
|  | Feedback to DAS State Controller's Division on proposed OAM change   |
|  | Joint Agency Federal Tax Information (FTI) Committee   |
|  | Public Safety CAE Review Group   |

| Agency  | Other Value Added Activity   |
|---|--|
| Department of Revenue                             | <p>Core Systems Replacement</p> <p>Member of CPA Liaison Group</p> <p>Non-voting Member of Business Continuity Committee</p> <p>Non-voting Member of Information Security Policies Committee</p> <p>Non-voting Member of Joint Field Banking Committee</p> <p>Non-voting Member of Security Team Committee</p> <p>Quality Assurance Review for DCBS</p>  |
| Department of Transportation                      | <p>Serving as Peer Review Panel Chair for the American Association of State and Highway Transportation Officials' Subcommittee on Internal/External Audit.</p> <p>Serving on Board of Salem Chapter of Institute of Internal Auditors. Compiling and publishing monthly newsletters for the Salem Chapter of the IIA.</p> <p>Updating, streamlining, and maintaining the peer review process for the American Association of State and Highway Transportation Officials.</p>   |
| Dept. of Human Services / Oregon Health Authority | <p>Consulted with Business Integrity Experts</p> <p>Coordinated department risk assessment activities</p> <p>Coordinated follow-up efforts on prior audit and review findings/recommendations</p> <p>Coordinated ten Secretary of State, Audits Division external reviews, including the Statewide Financial and Compliance review of nine major federal programs</p> <p>Helped coordinate 15 federal external reviews</p> <p>Participated in Administrative Services Division Information Services Committee</p> <p>Participated in Program Integrity Transformation Committee</p> <p>Presented as part of department management training efforts</p> |
| Judicial Department                               | <p>Coordinated responses to audit related surveys</p> <p>Coordination with Secretary of State Audits Division</p>  |
| Oregon Liquor Control Commission                  | <p>CAE serves as Information Security Officer, provides Information Security Training, chairs OLCC's Incident Response Team and serves as point of contact for the State Incident Response Team.</p> <p>Updated policies on internal audit function.</p>   |
| Oregon Lottery                                    | <p>Internal Audit helped facilitate ERM brainstorming sessions.</p> <p>Internal Audit provided whitepapers on IT governance best practices/frameworks to CIO and other IT managers.</p> <p>Internal Audit witnessed Thanksgiving and St. Patrick's Day Raffle drawing process and results.</p> <p>Internal Auditors participated on agency-wide Raffle project team, Scratch-its Return Team, and agency-wide Sustainability Committee, and Anti-Fraud Review Team.</p>  |

| <b>Agency</b>                       | <b>Other Value Added Activity</b>  |
|-------------------------------------|--|
| Oregon Lottery<br>(cont.)           | Internal Auditors participated on agency-wide Raffle project team, Scratch-its Return Team, and agency-wide Sustainability Committee, and Anti-Fraud Review Team.  |
|                                     | IT Auditor Obtained ITILv3 foundation certification to “keep up to speed” on leading IT frameworks so that IA could be ready to advise IT Department with ITIL implementation approach if needed.  |
|                                     | Researched various State Lotteries regarding operating best practices through strategic plans annual reports, audits, etc.   |
|                                     | Senior Internal Auditor Elected IIA Salem Chapter Membership Chair and began performing duties related to this position.   |
| Oregon University System            | Participated in professional association leadership including: Association of College and University Auditors – Board Member at Large; and Institute of Internal Auditors Salem Chapter – IT committee chair, Treasurer, and education committee member  |
|                                     | Served as external audit liaison with federal and state agencies to provide synergy  |
| Oregon Youth Authority              | Board Member, Salem Chapter of the Institute of Internal Auditors  |
|                                     | Performed Annual Financial Review for the Nisqually Chapter of the Institute of Internal Auditors  |
| Parks and Recreation                | Participated in the Quality Assurance Review at DHS.   |
| Public Employees Retirement System  | CAE served as Chair of Metro Audit Committee   |
|                                     | CAE serves as Information Security Officer and chairs Information Security Board meetings  |
|                                     | CAE serves on Statewide Audit Advisory Council   |
|                                     | Participated in Peer Review of DCBS  |
|                                     | Sr. Internal Auditor serves on Portland IIA Chapter Board.   |
| Public Utility Commission of Oregon | All SPOTS cardholders were required to complete refresher or new user training.  |
|                                     | The agency was fortunate to have the assistance of an MBA intern from Willamette University to conduct our SPOTS card audit. This was a good experience for the agency and the intern was able to gain real world experience.  |
|                                     | The Audit Committee worked with mangement staff to track and monitor risk issues identified during an agency-wide risk assessment completed in 2010. Some of these issues have been mitigated, and other more complex issues continue to be addressed and tracked. Agency staff are better trained to identify and understand the nature of risks, as well as the process for mitigating them. Also, staff are encouraged to bring forward emerging risk as they become aware of them. |

| <b>Agency</b> | <b>Other Value Added Activity</b>   |
|---------------|---|
| State Police  | The OSP internal auditor participated in a quality assurance review (QAR) of the internal audit program at Public Employees Retirement System (PERS). |
|               | The OSP internal auditor participated on interview panel at Oregon Employment Department (OED) for internal auditor 2 position.                       |