

Annual Report on Statewide Internal Audit Activities Fiscal Year 2021



Compiled by the
Department of Administrative Services Internal Audit Section

DAS
DEPARTMENT OF
ADMINISTRATIVE
SERVICES

A message from Katy Coba, Oregon’s Chief Operating Officer

Following is the 2021 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 2020 to June 2021, and includes, but is not limited to the following:

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

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

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

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

I again want to thank all my peers for a successful year. While still working through a pandemic, we were able to complete audits and consulting engagements that provided value to our agencies.

This year four performance measures were included that were created and approved by the Chief Audit Executive Council.

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

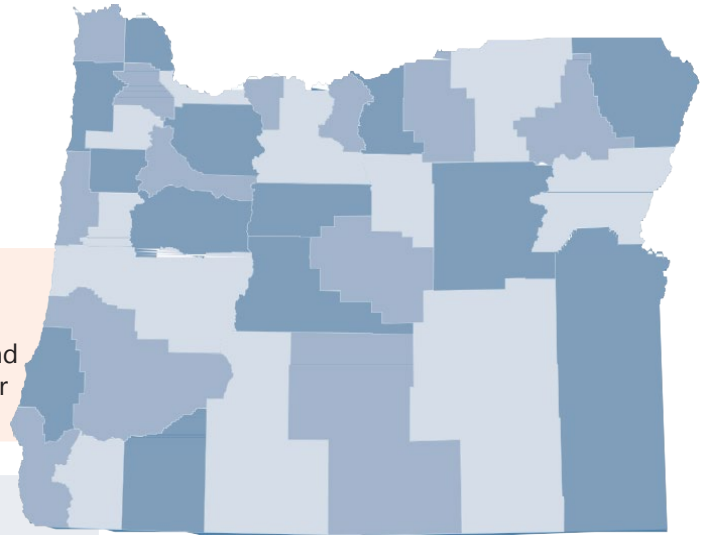
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Executive Summary

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 **56 audits** and **49 consulting engagements** on a number of key topics.



External Audit Liaison:

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



Quality Assurance Reviews:

Three agencies had an **external quality review** in FY 2021. The agencies all received the highest rating "generally conforms or pass."



Education:

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



Training:

State internal audit professionals completed over **1,815 hours** of training during FY 2021.



Standards and Code of Ethics:

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

The Value of Internal Audit:

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

Examples of Risk Categories

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

Overview of Internal Audits in State Government

During FY 2021, 23 agencies maintained an internal audit function. Five agencies had approved FTE, but did not recruit and/or hire for the position. Of those five, two agencies reported using contracted vendors for some internal audit work, spending approximately \$57,800.00. Five agencies received an exception from DAS.

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

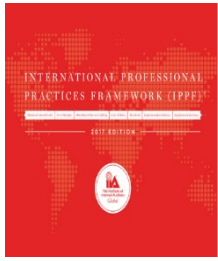
Guided by a professional set of standards and ethics, state internal audit functions add value by independently supporting informed decision-making and organizational efficiency and effectiveness. By performing periodic risk assessments (see Appendix A), internal audit determines which programs or areas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

IIA Core Principles

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

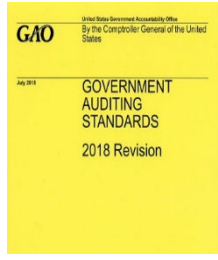
specified time period.

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



Code of Ethics for Internal Auditors (Red Book)

- Integrity
- Objectivity
- Confidentiality
- Competency



Ethics Standards for Auditor (Yellow Book)

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

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

GAO auditing in accordance with standards:

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



Audit committees with at least one external member

25



Audit committees with all internal agency members

2



External member is audit committee chair

13

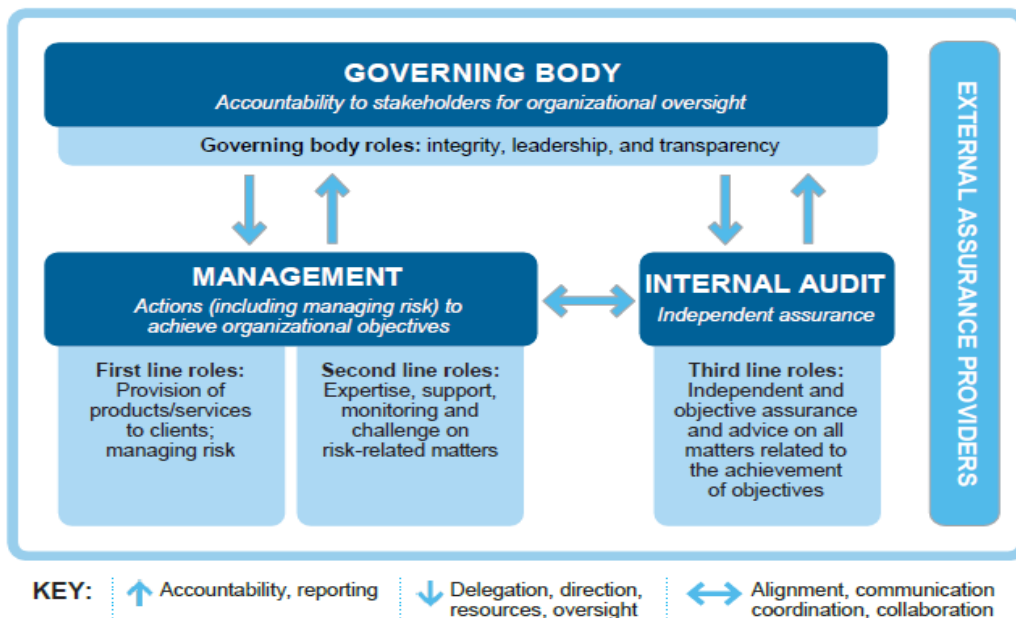


No reported audit committee

5

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

The IIA's Three Lines Model



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

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

Oregon's Chief Audit Executive Council (CAEC)

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

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

Through the creation of subcommittees and work groups, the council is working on two projects. The first is guidance for a reciprocal Quality Assurance Review program. The second project is a review and update of the Oregon Administrative Rule 125-700 that covers Internal Audit.

Performance Measure 1

Percentage of agencies that comply with ORS 184.360 – Target 100%

a) Produced a risk assessment of the entire agency that conforms to nationally recognized audit standards.

Actual: 79%

b) Completed at least one audit per year derived from the annual report.

Actual: 72%

c) Completed a governance or risk management audit within the last 5 years.

Actual: 69%

Performance Measure 2

1) Percentage of Red Book agencies (excludes ODOT) that perform surveys at the conclusion of their audit engagements and use the results to improve the audit process. – Target 100%

Actual: 82%

2) Percentage of survey responses affirmatively stating that the audit work provided value in the organization. – Target 90%

Actual: 100%

Performance Measure 3

Percentage of annual audit plan completed within the fiscal year.
Target 75%

Actual: 55%

Efforts and Accomplishments

Agency internal audit functions completed 53 audits in FY 2021 and an additional 49 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 56 audits completed by the state's internal audit functions, refer to Appendix B.

Consulting Engagements

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

External Audit Liaison

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

Performance Measure 4

Percent of state agency internal auditors who received at least 40 hours CPE within the year (per agency). – Target 100%.

Actual – 51%



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, three internal audit functions received an external quality assurance review in FY 2021 (refer to Appendix A).



Due Professional Care

Each auditor is responsible for performing their work with proficiency and due professional care. Proficiency is developed through education, experience, professional development, and relevant certifications. Due professional care requires an understanding of auditing standards as well as the creation and implementation of organization-specific policies and procedures governing the audit process. The DAS Chief Audit Executive is responsible for assisting agencies with compliance with auditing standards as well as recruiting, training, planning, staffing, and supervising engagements. Agencies reported over 1,815 hours of training completed by internal audit staff in FY 2021.

AUDITORS
REPORTED OVER
1,815 HOURS
OF TRAINING.

That’s about 45 hours per Auditor!



Professional Certifications and Advanced Degrees

Internal auditors in Oregon generally hold relevant professional certifications and are experienced professionals with a high level of education. Of the 40 professionals dedicated to an internal audit function at the close of FY 2021, 27 (67%) reported a professional designation, and many hold more than one. Certifications include, but are not limited to, Certified Public Accountants, Certified Internal Auditor, and Certified Government Auditing Professional.

In addition to the professional certifications, 21 of the 40 auditors (52%) hold advanced degrees in Business Administration, Public Administration, Public Policy, Management, or another advanced degrees.

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

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

COVID-19

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

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

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



Appendix A

Agencies Meeting IA Requirement under OAR 125-700-0125						
Agency	Internal Audit Program	Staff FTE	Risk Assessment Completed	Risk Based Audit	Governance and Risk Management Process Audit Year Completed	Last External Review and Results
BIZ	Agency IA Function	1	FY 2020	Y	2021	N/A
DAS	Agency IA Function	2	FY 2019	Y	2021	2011 / GC
DCBS	Agency IA Function	1	FY 2021	Y	2021	2018 / GC
DEQ	Agency IA Function	1	N/A	N*	N/A	N/A
DOC	Agency IA Function	3	FY 2021	Y	2021	2021 / GC
DOR	Agency IA Function	2	FY 2021	N***	2021	Due 2021
HECC	Agency IA Function	1	N/A	N*	N/A	New Function
OCB	Agency IA Function	1	FY 2021	Y	N/A	New Function
ODE	Agency IA Function	1	FY 2016	N**	2019	2020 / GC
ODF	Agency IA Function	1	FY 2021	Y	2020	Due 2021
ODHS/OHA	Agency IA Function	9	FY 2021	Y	2019	Due 2021
ODOE	Agency IA Function	1	FY 2019	Y	2021	Due 2023
ODOT	Agency IA Function	8	FY 2021	Y	2019	2021 / P
ODVA	Agency IA Function	1	FY 2021	Y	2018	New Function
OED	Agency IA Function	1	FY 2020	Y	2021	2012 / GC
OHCS	Agency IA Function	1	FY 2021	Y	N/A	New Function
OJD	Agency IA Function	1	FY 2021	Y	2019	2021 / GC
OMD	Agency IA Function	1	FY 2021	Y	2021	New Function
OPRD	Vacant	1	FY 2021	N**	2016	2014 / GC
OSL	Agency IA Function	3	FY 2021	Y	2020	2020 / GC
OSP	Vacant	1	FY 2019	N**	2017	2018 / GC
OST	Agency IA Function	1	N/A	N*	N/A	New Function
OYA	Agency IA Function	1	FY 2021	Y	2018	2017 / GC
PERS	Agency IA Function	4	FY 2021	Y	2020	Due 2021

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

**ODE, OPRD, and OSP had vacancies and did not have an audit completed.

***DOR completed an audit but it was not reported as a risk based audit.

Quality Assessment Review Ratings:

Red Book:

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

Yellow Book:

- Pass
- Pass with Deficiencies
- Fail

Appendix A continued on next page

Agencies Meeting IA Requirement under OAR 125-700-0125 (without Agency IA Function)

Agency	Internal Audit Program	Years of Position Vacancy	Staff FTE	Risk Assessment Completed	Risk Based Audit	Governance and Risk Management Process Audit Year Completed	Last External Review and Results
DSL	DAS Approved Exception	7	0	N/A	N	N/A	N/A
ODA	DAS Approved Exception	4	0	N/A	N	N/A	N/A
OWEB	DAS Approved Exception	2	0	N/A	N	N/A	N/A
PUC	DAS Approved Exception	11	0	N/A	N	2018	N/A
WRD	DAS Approved Exception	3	0	N/A	N	N/A	N/A
DOJ	No Function*	9	1**	FY 2018	Y	2020	N/A
ODFW	No Function*	>1	1**	FY 2021	Y	2021	N/A
OLCC	No Function*	9	1**	FY 2020	Y	2019	N/A

*Limited Internal Audit work conducted by contracted Vendor.

** Approved FTE but function not filled

Appendix B

Audit Reports Issued in FY 2021

Agency	Audit Report Name
BIZ	Japan Representative Office
DAS	DAS Safety Committee Program
DCBS	Workers' Compensation Division, NCE AR
	Central Service Division, AR Unit
DOC	Medicaid Coverage Options
	Use of Force Review Process
DOJ	DOJ Performance Audit of Continuity of Operations Planning
	DOJ Continuity of Operations Performance
DOR	PCM Post Project and Impacts
OCB	SPOTS Card
ODF	Record Retention
	Employee Leased Housing Follow-up
	SPOTS Card Follow-up
ODFW	Charter and Guide Coupon Book
ODHS/OHA	IT Work Intake
	OHA Contract Design and Administration
	ODHS Contract Design and Administration
	ODHS Contract Delegation
ODOE	Radioactive Waste Transport Fees
ODOT	DMV STP Follow-up
	Debt Collection
	A&E Procurement Process
	Region 5 Modular Housing
ODVA	Conservatorship Program Audit
	DEI in Hiring and Retention
OED	Succession Planning
OHCS	2020 CFR Rental Relief
OJD	Change of Trial Court Administrator – Marion
	Technology Assessment – Marion
	Drug Treatment Court – Benton
	Internal Controls – Polk
	Change of Trial Court Administrator – Clatsop
	Change of Trial Court Administrator – Columbia
	Technology Assessment – Clatsop
	Change of Director – Human Resources
OLCC	Monthly Financial Close Internal Audit Report
OMD	Recruitment Process Improvement
	Construction Administrative Review
OPRD	Administering Measure 76 Funds: Advancing Constitutional Goals for State Parks and Natural Resources
OSL	Consultative Review of Potential Financial Viability Criterion for Evaluating Retailer Contract
	Applications Memo
	Annual Follow-up Review of Open Audit Recommendations

	NASPL Quality Assessment Report
	Information Classification and Protection
	Cybersecurity Risk Assessment – CIS Organizational Controls Memo
OYA	Substance Use Screening
PERS	Earnings Crediting
	Benefit Calculations
	Employer Data
	PERS Health Insurance Risk Assessment
	Application Data Validation Checks
	Disability Eligibility Determinations
	Disability Calculations
	Batch Processing

Appendix C

Consulting Engagements in FY 2021	
Agency	Consulting Review Topic
DAS	Parking Meter Accounting
	Workday Security
	Utilities with Transaction Limits
	Risk Management Staffing
DCBS	Employee Engagement Strategies
	Remote Work
	Quarantine Time Loss Program
	Misc. Consultations
DOC	Succession Planning Inventory
	COVID Assessment: DRCI
	COVID Assessment: CRSI
	COVID Assessment: CCCF
	COVID Assessment: OSCI
	COVID Assessment: SCI
	COVID Assessment: TRCI and EOCI
	COVID Assessment: TRCI (2)
	Change of Director Reviews: Operations, TRCI, DRCI
	DOR
Security Access Processes Review	
ACH Separation Testing	
Taxpayer Notice of Adjustment Error	
IT Governance Related to Cloud-based Business Tools	
Equipment/Access Controls for Employees Working at Other Agencies	
OCB	Client Payments Review
	Internal Control Manual
	Federal Compliance Audit – Liaison
	Agency Head Review
	Public Records Requests – ongoing
	Records Retention Policy & Schedule – ongoing
ODE	Internal Control Gap Analysis - ongoing
	Agency Position Descriptions
	Youth Correction Education Program Internal Audit Follow-up
ODF	Warm Springs Academy
	OregonBuys
ODHS/OHA	CARES Act – Oregon State Hospital
	CARES Act – Community Based Organizations
	CARES Act – Subrecipient Monitoring
	Child Welfare Vendor Inquiry
ODOE	ERM Framework and Concepts
	Internal Control Mapping
	Meeting Structure Survey
OHCS	CRF-CARES Overview and Risk Assessment

	Landlord Comp Fund
OMD	Contruction Review
OSL	Internal Audit Quarterly Scan of Drawing Results Memo – Quarters 1 through 4
	Internal Audit Participation in the 2021 Raqffle Drawing Memo
	Clarification of Oregon Administrative Rule Related to Policy Adoption Memo
OYA	Federal Victimization Survey Response – Data Collection Review

Appendix D

Audit Committee (AC) Components

Agency	IAC Members Total	IAC External Members	Chair	IAC Formed	IAC Approved Charter	IAC Meeting Timeframe
BIZ	7	2	External	2013	2020	Quarterly
DAS	9	3	External	1998	2020	Quarterly
DCBS	11	1	Internal	1999	2019	Quarterly
DEQ	7	1	Internal	2021	2021	Quarterly
DOC	12	1	Internal	2009	2020	Quarterly
DOJ	5	1	Internal	2007	2016	Quarterly
DOR	9	5	External	2005	2021	Quarterly
HECC	7	5	External	2020	2020	Quarterly
OCB	3	1	N/A	2021	2021	As Needed
ODE	8	6	External	2004	2019	Quarterly
ODF	5	3	Internal	2016	2019	Quarterly
ODFW	8	2	Internal	2017	2019	Quarterly
ODHS/OHA	17	3	External	1997	2021	Every other Month
ODOE	5	3	External	2014	2021	3 X a Year
ODOT	5	1	External	2001	2019	Quarterly
ODVA	7	5	External	2020	2021	5 Times a Year
OED	9	2	Internal	2001	2020	Quarterly
OHCS	9	2	External	2020	2020	Quarterly
OJD	9	1	Internal	1995	2019	Quarterly
OLCC	3	1	Internal	2007	2020	Quarterly
OMD	7	1	Internal	2011	2020	3 X a Year
OPRD	5	4	External	2009	2020	Quarterly
OSL	6	2	External	1999	2021	Quarterly
OSP	3	1	Internal	2008	2018	Annually
OYA	6	3	External	2011	2019	Quarterly
PERS	3	3	External	2004	2020	3 X a Year
PUC	4	0	Internal	2018	2018	Annually

Appendix E

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

Appendix F



Oregon Revised Statutes (ORS):

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

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

Oregon Administrative Rules (OAR):

Division 700: INTERNAL AUDITING

125-700-0010

Purpose:

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

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

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

125-700-0015

Definitions:

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

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

125-700-0125

Internal Auditing Requirements

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

125-700-0135

Agency Internal Audit Function Governance

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

125-700-0140

Planning and Reporting Responsibilities

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

125-700-0145

External Review

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

125-700-0150

Internal Audit Independence

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

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

125-700-0155

Audit Records and Retention

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