

**HOUSE COMMITTEE ON AUDITS**

February 01, 2005 Hearing Room D

8:30 A.M. Tapes 12 - 14

**MEMBERS PRESENT:**           **Rep. Jerry Krummel, Chair**

**Rep. Tom Butler, Vice-Chair**

**Rep. Diane Rosenbaum, Vice-Chair**

**Rep. Alan Brown**

**Rep. Jackie Dingfelder**

**STAFF PRESENT:**           **Jim Keller, Committee Administrator**

**Kellie Whiting, Committee Assistant**

**MEASURES/ISSUES HEARD:**

**HB 2026 - Public Hearing**

**HB 2382 - Public Hearing**

**These minutes are in compliance with Senate and House Rules. Only text enclosed in quotation marks reports a speaker's exact words. For complete contents, please refer to the tapes.**

<b>TAPE/#</b>	<b>Speaker</b>	<b>Comments</b>
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## TAPE 12, A

010 Chair Krummel Calls the meeting to order at 8:40 a.m. and opens the public hearing on HB 2026.

### HB 2026 - PUBLIC HEARING

015 Jim Keller Committee Administrator. Reads HB 2026.

022 George Dunford Internal Auditor, Department of Administrative Services (DAS). Testifies in support of HB 2026.

033 Debbie Ferguson Audit Director, Standard Insurance Company. Testifies in support of HB 2026. States HB 2026 will benefit an effective audit.

064 Chair Krummel Inquires if she sees the bill addressing internal and performance audits.

070 Ferguson Responds internal audits encompass financial, compliance and operating audits.

071 Dunford States it is not the intent of the internal audit function to perform only financial audits.

074 Rep. Butler Inquires about the association between internal auditors and standards.

089 Ferguson Responds there are standards and compliance issues from the Institute of Internal Auditors, which governs internal audits.

098 Rep. Butler Inquires if the bill should provide that DAS adopt the rules and guidelines subject to the Institute of Internal Auditors.

110 Dunford Responds there are standards in place. Explains the current policies.

134 Rep. Butler States he is uncomfortable about establishing more guidelines and procedures that are broad in Oregon Statute, and add or disregard the handbook and standards that already exist.

165 Dunford States that DAS would not be opposed to recommended amendments.

175	Rep. Butler	Clarifies his concern is that they should adopt some language that recognizes the existing criteria and then establish standards and procedures.
199	Sen. Ted Ferrioli	Senate District 30. Testifies in support of HB 2026. States the Joint Legislative Audits Committee drafted the bill. States there needs to be legislative over sites to the audits. Comments the legislative over sites should be done in a year round, advisory and systematic way. Encourages the first statutory framework for internal auditing. States the bill is a management tool that would be beneficial.
307	Rep. Butler	Inquires if consideration of the bill, including possible changes, would be outside the scope and/or defamatory to the intent of the Joint Legislature Audits Committee (JLAC).
333	Sen. Ferrioli	Responds it does not go against the intent of the JLAC and the bill is a management tool that allows the framework.
367	Chair Krummel	Inquires if it creates the independence.
379	Sen. Ferrioli	Responds usual and customary business practices needs to have management and framework.
400	Chair Krummel	Inquires if agencies have potential conflict with internal auditors.
410	Sen. Ferrioli	Responds the conference is necessary and it keeps agencies on track with the Oregon Revised Statutes, the Constitution and policies. Comments if you make decisions in this world today, you need financial and legal advice.

**TAPE 13, A**

017	Chair Krummel	Inquires if DAS offers this to other agencies and would it rate based or fee based.
023	Sen. Ferrioli	Responds that the Audits Committee should determine those issues. Comments on the different levels of authority.
047	Chair Krummel	Asks if the emergency clause is of importance.

050	Sen. Ferrioli	Concurs.
065	Drummond Kahn	Oregon Department of Transportation (ODOT). Testifies in support of HB 2026. States the bill will assist to enhance accountability for our state. Explains the current policy guidelines.
095	Chair Krummel	Asks if the previous internal audit functions in place to review ODOT helped him to relay the information.
109	Kahn	Responds the contracts were managed through the Audit and Review Service Office. Responds the department benefited from the review.
133	Bob Repine	Director, Oregon Housing and Community Services. Testifies in favor for HB 2026. States the bill would be helpful in assisting with the critical role. Comments on the reason the internal look is important. States the process should be standardized and institutional. States the legislature's purpose is to ensure consistency through structure and feedback to monitor quality and satisfaction.
196	Rep. Butler	Inquires if the department has on-going internal audit functions.
202	Repine	Responds he does not have internal auditors, but does have financial audits and federal audits in which they monitor.
215	Rep. Butler	Inquires how he envisions the independent set of eyes.
222	Repine	Responds that was an issue the Interim Advisory Group had discussed. Explains the different ways to structure them.
240	Rep. Butler	Inquires if in that process, would it be conceivable there would be an internal auditor assigned full-time, that would not be held responsible to Mr. Repine, but Mr. Repine would be the beneficiary.
253	Repine	Responds there could be a series of models used.
271	Rep. Butler	Inquires if that process would be functional and objective.
281	Repine	Explains that the issues need more discussion.
304	Rep. Butler	Notes there is no subsequent referral to HB 2026.

312	Keller	Responds there is no subsequent referral or any expenditure impact.
321	Chair Krummel	Comments about utilizing existing operations.
322	Rep. Rosenbaum	Inquires if this bill could improve the public perception the public has on government.
335	Repine	Responds the bill is a very critical element in accountability and the framework is as important.
374	Rep. Dingfelder	Inquires if an internal audit would catch unethical situations.
400	Kahn	Responds the internal audits would attempt to ensure ethics and if unethical issues come up, there would be a safety net to catch them.

**TAPE 12, B**

011	Denise Teixeira	Internal Audit Administrator, Department of Corrections. Submits and reads prepared testimony on behalf of Max Williams, Director for the Department of Corrections in support of HB 2026 ( <b>EXHIBIT A</b> ).
036	Rep. Butler	Comments in regards to competency.
041	Teixeira	Responds about competency level requirements.
050	Rep. Butler	Expresses his concern about the designation of different levels of auditors.
069	Craig Stroud	Former Director of Internal Audits, Oregon Public Employees Retirement System (PERS). Testifies in support of HB 2026. Indicates he is testifying on his own behalf, not as a representative of PERS. States management and auditors work closely together and explains the difficulties they face in regards to independence and ethics. Comments the framework will give management the corrective actions and advice by being able to have internal auditors. Expresses the functions and standards would have to accommodate each individual agency.
150	Rep. Butler	Inquires if he is a certified public auditor.

154	Stroud	Responds he is a certified public accountant.
176	Chair Krummel	Requests Rep. Butler to compose a workgroup to address amendments to HB 2026.
188	Dunford	Recommends Rep. Butler to include legislative fiscal in the workgroup.
200	Chair Krummel	Closes the public hearing on HB 2026 and opens the public hearing on HB 2382.

### **HB 2382 – PUBLIC HEARING**

200	Jim Keller	Committee Administrator. Reads HB 2382.
217	Rep. Donna Nelson	House District 24. Submits and reads from prepared testimony on behalf of Ray Fields, Chairman for McMinnville Rural Fire Protection District Board ( <b>EXHIBIT B</b> ) in support of HB 2382. Explains the difference between an audit and review.
320	Rep. Nelson	Discusses the recommended amendments to HB 2382. Discusses the savings to taxpayers upon passage of the bill.

### **TAPE 13, B**

008	Rep. Nelson	Continues to read Ray Field's testimony. Comments raising the threshold to perform an audit is reasonable.
041	Jacque Howard	Rep. Donna Nelson's office. Submits and reads from prepared testimony on behalf of Kathleen L. Bernards in support of HB 2382 ( <b>EXHIBIT C</b> ).
086	Rep. Butler	Comments on the language in regards to audits and reviews.
102	Chair Krummel	Inquires about the cost for a municipal corporation audit.
109	Rep. Dingfelder	States it would be helpful to know how many municipalities are required to have an audit and by this law, would not need to have them any more.

119	Rep. Nelson	States they will collect the information.
123	Chair Krummel	Inquires if raising the threshold is a good idea when they are questioned for the use of public funds.
146	Rep. Nelson	Responds she will ask the justice department.
160	Chair Krummel	Comments the process should be clean and the internal controls should be solid. States accountability should be respected and internal controls should be in place.
209	Phil Hopkins	Audit Manager, Secretary of State Audits Division. Testifies in neutral support of HB 2382. Submits and refers to the expenditure statistical chart ( <b>EXHIBIT D</b> ). Explains the law's intent in regards to an audit. States the amendments will not effect how they operate with two exceptions. Explains the two exceptions.
309	Hopkins	Refers to page one and demonstrates the effects of HB 2382.
419	Hopkins	Presents the different municipalities, their findings and their expenditures on page two.

**TAPE 14, A**

014	Parry Ankersen	Oregon Society of Certified Public Accountants. Testifies in opposition of HB 2382. States accountability should not be reduced at this time within state governments. Comments the accountability is adequate in regards to reviews and audits. Agrees there are drafting errors. Encourages the committee to consider the problem with in regards to lowering accountability.
058	Rep. Butler	Asks for clarification of Mr. Ankersen's testimony that the language concerning review and audit is not a problem.
066	Ankersen	Concurs.
068	Rep. Butler	Refers to HB 2382 and comments the terms cannot be used interchangeably.
074	Ankersen	Responds about the administrative rules in regards to the review of fiscal affairs and believes that was originally referred to.

082	Rep. Butler	Concurs with Ankersen and believes the terms were put into statute when municipal corporations would both be audited in terms of fiscal and reviewed in terms of efficiency. Believes the committee should look at the suggestions in terms of language updates pertaining to section four of the bill.
100	Chair Krummel	Closes the public hearing on HB 2382 and adjourns the meeting at 10:37 a.m.

### **EXHIBIT SUMMARY**

- A. HB 2026, prepared testimony of Max Williams, Denise Teixeira, 1 p**
- B. HB 2382, prepared testimony of Ray Fields, Rep. Donna Nelson, 6 pp**
- C. HB 2382, prepared testimony of Kathleen Bernards, Jacquie Howard, 1 p**
- D. HB 2382, expenditure statistical chart, Phil Hopkins, 2 pp**