

HOUSE COMMITTEE ON AUDITS

February 10, 2005 Hearing Room D

8:30 A.M. Tapes 20 - 22

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

Jania Zeeb, Committee Assistant

MEASURES/ISSUES HEARD:

HB 2026 – Public Hearing

Statewide Audit Advisory Committee Overview – Informational

Meeting

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.

TAPE/#	Speaker	Comments
TAPE 20, A		
003	Chair Krummel	Calls the meeting to order at 8:44 a.m. and opens the public hearing on HB 2026.

HB 2026 - PUBLIC HEARING

018	Rep. Butler	Explains what the -1 amendments do and why the amendments are needed (EXHIBIT A).
104	Rep. Butler	Recommends that the committee adopt the -1 amendments.
110	George Dunford	Internal Auditor, Department of Administrative Services. Testifies in support of the bill and the -1 amendments.
125	Chair Krummel	Closes the public hearing on HB 2026.
131	Chair Krummel	Reviews the letter to the Committee on Ways and Means regarding the audit of the Oregon Department of Forestry (EXHIBIT B). Discusses possible changes to the letter on page three.
150	Rep. Butler	Refers to items number two and four on the list of recommendations and (EXHIBIT B, Page 3) inquires how they are affected by the changes.
163	Chair Krummel	States that as a result of the changes number two and four could be removed.
171	Rep. Butler	States that he supports him withdrawing the two suggestions, but the language needs to be adjusted so that it is similar throughout all the recommendations.
187	Chair Krummel	Discusses the other change (EXHIBIT B, Page 4). States that the changes will be made unless he hears from any of the committee members by 3:00 p.m.

209 Chair Krummel Opens the informational meeting on the Statewide Audit Advisory Committee and the Department of Administrative Services (DAS).

STATEWIDE AUDIT ADVISORY COMMITTEE OVERVIEW- INFORMATIONAL MEETING

213 George Dunford Internal Auditor, Department of Administrative Services (DAS). Introduces the people who will be presenting. Discusses the Statewide Audit Advisory Committee.

239 Dunford Discusses what the committee has done. Submits and discusses an informational packet which includes a copy of the letter that was sent to directors of state departments regarding the changes in internal auditing along with a copy of the charter for the Statewide Audit Advisory Committee (**EXHIBIT C**).

260 Carol Welch Member of the Statewide Audit Advisory Committee. Discusses the purpose and benefits of internal audits

309 Welch Talks about her role on the advisory committee.

314 Rep. Butler Expresses gratitude to Ms. Welch and all the members of the Statewide Audit Advisory committee for their work.

320 Greg Schumacher Internal Audits Regulatory Compliance Manager, West Coast Bank Corporation. Discusses what he gained from being a member of the Statewide Audit Advisory committee.

381 Schumacher Lists some of the subjects discussed by the committee. Testifies in support of HB 2026.

405 Chair Krummel Inquires if the Statewide Audit Advisory Committee is going to be continuing or if they have met the objectives and will be disbanded.

417 Schumacher Answers that the objectives will change but the committee has not completed its work.

430 Chair Krummel Asks if the committee will continue to advise the various agencies or DAS.

434 Schumacher

Remarks that his role is to advise the committee, then the members of the committee can take that advise back to the agencies.

445 Chair Krummel Inquires if he is trying to see ways to make the state follow the business model more closely.

TAPE 21, A

015 Schumacher Responds that Chair Krummel is correct.

017 Chair Krummel Inquires if there is a document that is an advisory to the legislative branch in terms of internal audits.

027 Schumacher States that there is a lot of literature out there with that information.

036 Rep. Butler States that they are either getting evasive answers or not answer at all from certain departments. Inquires it if it appropriate for a legislator to go to the internal auditors to ask about get information.

074 Schumacher Gives an example of how his company would handle this situation.

081 Rep. Butler Asks if external auditors report to the CEO and internal auditors report to a member of the board.

082 Schumacher Answers that for the most part, external auditors also report to the audit committee. Discusses the reason for the independence for the internal auditors. Emphasizes the need to create independence as a critical of a successful audit function.

109 Rep. Butler Inquires how this would work in government. Asks how legislators should approach the internal audits function and how the Secretary of State's audit division approaches internal auditing.

135 Schumacher States that it depends on how the infrastructure supports the level of independence needed.

137 Rep. Butler Inquires how external auditors approach internal auditors and what that relationship like.

140 Schumacher

Responds that it is important to maintain good relationships between external and internal auditors and gives reasons why.

- 180 Rep. Butler States that we should expect some cost savings out of this process. Asks what the relationship with the internal audits should be with legislators.
- 193 Schumacher Agrees with Rep. Butler and expands on what the committee has looked at.
- 205 Rep. Butler Comments that internal auditors should be seen as resources to help the state save money and have a greater level of efficiency. Reiterates the desire to know what a legislature's relationship with an auditor should be.
- 236 Schumacher Discusses how HB 2026 would encourage legislators to talk with the auditors.
- 249 Chair Krummel Inquires about the issue of independence in regards to hiring and operating with internal auditors.
- 321 Schumacher Responds that auditors have different functions, independence is one of them, but being internal consultants is another. Remarks that he does not support having auditors centralized in one agency while doing audits of the other agencies, it is important to have auditors in each agency. Offers solutions that they can do in regards to internal auditing.
- 369 Rep. Butler Comments on the relationship of internal audit in industry to a board members an internal audit committee. Questions how that works at the state level. Wonders about the make up of the joint legislative audit committee and if it needs to be changed. Observes that the issues addressed by that committee are high level and should be addressed by people with experience.
- 431 Schumacher Remarks that they are required to have a financial expert on the audit committee. Defines what a financial expert is.
- 442 Rep. Butler Comments on the joint legislative audits committee, and the importance of having members who have significant financial background on the committee.

028	Dunford	Discusses DAS's perspective on internal audits.
081	Chair Krummel	States that they have raised valid points in dealing with independence with internal audits.
096	Rep. Butler	Inquires if Mr. Dunford thinks the legislators should not be able to access information from internal auditors. Asks if Mr. Dunford anticipates some savings and how will they be enjoyed.
109	Dunford	Remarks that legislators should have access to the internal auditing staff. Discusses the benefits to improving the internal audits function.
128	Rep. Dingfelder	Gives the example of the Oregon Department of Forestry (ODF), and inquires if Mr. Dunford thinks that an internal auditor could have helped deter the types of things that happened at ODF.
141	Dunford	Responds that he cannot be completely certain that the problems would not have occurred, however the number of findings would be lower. Discusses what is happening in ODF.
161	John Ratford	State Controller, Department of Administrative Services. Discusses the importance of the representation letter signed by state controllers and the statewide financial reports.
206	Ratford	Discusses the importance of internal auditors who help him with his report.
218	Ratford	Talks about some of the benefits of HB 2026. Testifies in support of HB 2026.
233	Ratford	Discusses how the Public Employee Retirement System's (PERS) board handles internal audits.
293	Rep. Butler	Inquires if internal audits will cause the cost of external audits to decrease, and if creating a new internal audits division will cause more overlapping of work.
303	Ratford	Responds that this is the expectation, but it is important that the agency have professionally trained auditors and the auditors need to follow the standards.

321	Rep. Butler	Inquires what the relationship between the legislative members should be with internal audit divisions of individual departments.
323	Ratford	Answers that there is a special relationship between the internal auditor, the head of an agency, and the senior board. Gives an example of a county with an elected internal auditor.
372	Chair Krummel	Inquires about how smaller agencies should handle internal auditors, and if there is a way for them to share internal auditors.
421	Ratford	Discusses the relationship between cost and benefit, and states that it is not cost effective for the smaller agencies to have an internal auditor. Gives options for how this could work for smaller departments.

TAPE 21, B

023	Chair Krummel	Asks what it costs to hire an internal auditor. Questions if the smaller agencies will see enough savings to justify the salary of the auditor.
030	Ratford	Answers that it costs \$100,000 a year for everything for an internal auditor. States that it does not take a lot of internal audit resources to get a lot of benefit from an internal auditor.
041	Rep. Butler	Inquires about the internal audit group in DAS.
044	Ratford	Gives information about the internal audit group in DAS.
087	Rep. Butler	Inquires if it conforms to Sarbanes and to how other states internal audit supervisory committee.
095	Ratford	Responds that the leading states are Washington, Texas and Ohio, and talks about how they handle internal audits. States that Sarbanes does not apply to government, but there is discussion about making it apply.
115	Rep. Butler	States that transparency is important in government to maintain credibility.
123	Ratford	Comments that the most important element is the tone at the top and leadership.

133	Rep. Butler	Mentions that he is not concerned with how internal audits are being run the in state today, but is concerned with how the state will be run in the future.
161	Jerl Cate	Member of the Statewide Audit Advisory Committee. Discusses his credentials.
202	Cate	Gives information on the Institute of Internal Auditors (IIA). Submits and refers to informational materials on the IIA (EXHIBIT D).
251	Cate	Acknowledges the people who are working on the internal auditing issue in government.
266	Cate	Answers questions which were submitted to him by the committee beforehand.
287	Rep. Butler	Inquires how internal auditing works in his agency.
304	Cate	States that there should be an independent audit committee and the chief audit executive would report to the agency chief executive officer and to the committee.
309	Rep. Butler	Asks for clarification as to what Mr. Cate means by independent agency.
311	Cate	States that he is under the judicial branch so things are organized differently.
324	Rep. Butler	Wants to know who the internal auditors in the judicial branch report to that is independent.
334	Cate	Responds that currently the independence is his responsibility, explains how this might change because they are in transition.
349	Rep. Butler	States that he wants to see how the internal auditing function is going to look from a number of perspectives.
375	Dunford	Responds that part of the rule making process proposed in HB 2026 would provide assurance that a continuing independent process will be engaged in by directors of departments.

404 Rep. Butler Comments that there are three independent branches of government, and it can be difficult to have the rules apply to all three.

426 Cate Continues answering the questions that were submitted to him before the meeting.

TAPE 22, A

027 Cate Talks about his role on the audit committee.

039 Cate Discusses what he believes the committee has accomplished and how it has added value to the internal auditing process.

043 Cate Notes how the bill will help strengthen internal auditing of Oregon.

063 Bob Repine Director, Oregon Housing and Community Services. Mentions that he is a former member of the Joint Legislative Committee, and gives a history of how that committee handles audits. Says that they are now trying to create clear lines on how internal audits will be handled. States that the reality is that certain elements of agency's work can be run like a business but certain elements cannot.

099 Repine Remarks that there are not always economic benefits to audits but it can cause less reproduction of work and increase productivity.

133 Chair Krummel Closes the informational meeting on the Statewide Audit Advisory Committee and adjourns the meeting at 10:49 a.m.

EXHIBIT SUMMARY

- A. **HB 2026, -1 Amendments, staff, 1 p**
- B. **Oregon Department of Forestry, letter to the Committee on Ways and Means, Rep. Jerry Krummel, 5 pp**
- C. **Statewide Audit Advisory Committee, informational packet, George Dunford, 7 pp**
- D. **Institute of Internal Auditors, informational material, Jerl Cate, 313 pp**