



Secretary of State **Oregon Audits Division**



Department of Administrative Services
Recommendation Follow-up Report:
**While Further Action Is Needed, Several Statewide
Internal Audit Improvements Have Been Made**

December 2019
Report 2019-43

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Executive Summary

Follow-up to Audit Report 2018-25

Department of Administrative Services

Recommendation Follow-up Report: While Further Action Is Needed, Several Statewide Internal Audit Improvements Have Been Made

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Follow-up Summary

The Department of Administrative Services (DAS) made progress on nine of the 16 recommendations from the original audit, fully implementing four. DAS has not implemented seven recommendations. For example, it has not yet begun preparations to recommend changes to administrative rules or statutes in future legislative sessions, or to develop its strategic plan for statewide internal audit coordination. After the release of the original audit, a significant improvement to the statewide internal audit function occurred when nine agencies received approval in the 2019-21 budget for new internal audit positions.

Findings from the Original Audit

- » The internal audit function at state agencies in Oregon is not prioritized or well understood by agency management and the Legislature.
- » Internal audit functions in some state agencies do not follow important elements of professional audit standards that ensure independence from management.
- » Poor guidance and a lack of strategic management and effective coordination from DAS has contributed to internal audit challenges at state agencies.

Improvements Noted

- » DAS has increased their staffing to allow separate positions for both a Statewide Coordinator and an Internal Auditor dedicated to work on DAS and worked on a process to change minimum qualifications for new auditors to expand the pool of possible applicants at state agencies. ([pg. 5](#))
- » DAS and the Chief Audit Executive Council have started a program matching new and experienced Chief Audit Executives for mentorship ([pg. 7](#)) and created guidance for agency directors. ([pg. 6](#))

Remaining Areas of Concern

- » DAS has not yet started to develop a strategic plan to coordinate agency internal audit efforts, promote effectiveness, and ensure integrity of internal auditing in the state ([pg. 6](#))
- » DAS has developed a system to monitor which agencies are required to have an internal audit function, but it does not include some independent agencies with budgets larger than \$100 million. ([pg. 6](#))
- » Although DAS has made some improvements to the annual internal audit report, many of our concerns remain and there are a few areas that may have declined. ([pg. 8](#))

The Oregon Secretary of State Audits Division is an independent, nonpartisan organization that conducts audits based on objective, reliable information to help state government operate more efficiently and effectively. The summary above should be considered in connection with a careful review of the full report.

Introduction

The purpose of this report is to follow up on the recommendations we made to the Department of Administrative Services (DAS) as included in audit report 2018-25, “Opportunities Exist to Increase the Impact of State Agency Internal Audit Functions.”

The Oregon Audits Division conducts follow-up procedures for each of our performance audits. This process helps assess the impact of our audit work, promotes accountability and transparency within state government, and ensures audit recommendations are implemented and related risks mitigated to the greatest extent possible.

We use a standard set of procedures for these engagements that includes gathering evidence and assessing the efforts of the auditee to implement our recommendations; concluding and reporting on those efforts; and employing a rigorous quality assurance process to ensure our conclusions are accurate. We determine implementation status based on an assessment of evidence rather than self-reported information. This follow-up is not an audit, but a status check on the agency’s actions.

To ensure the timeliness of this effort, the division asks all auditees to provide a timeframe for implementing the recommendations in our audit reports. We use this timeframe to schedule and execute our follow-up procedures.

Our follow-up procedures evaluate the status of each recommendation and assign it one of the following categories:

- **Implemented/Resolved:** The auditee has fully implemented the recommendation or otherwise taken the appropriate action to resolve the issue identified by the audit.
- **Partially implemented:** The auditee has begun taking action on the recommendation, but has not fully implemented it. In some cases, this simply means the auditee needs more time to fully implement the recommendation. However, it may also mean the auditee believes it has taken sufficient action to address the issue and does not plan to pursue further action on that recommendation.
- **Not implemented:** The auditee has taken no action on the recommendation. This could mean the auditee still plans to implement the recommendation and simply has not yet taken action; it could also mean the auditee has declined to take the action identified by the recommendation and may pursue other action, or the auditee disagreed with the initial recommendation.

The status of each recommendation and full results of our follow-up work are detailed in the following pages.

We sincerely appreciate the courtesies and cooperation extended by officials and employees of DAS during the course of this follow-up work.

Recommendation Implementation Status

Recommendation #1

Define the minimum amount of resources that constitutes an active internal audit function, whether staffed or contracted, and develop a methodology to determine the recommended staffing for internal auditing

**Not
implemented**

DAS has not yet started work on this recommendation. At the time of the original audit, DAS estimated the agency would complete this recommendation by July 2023.

Recommendation #2

Determine whether the minimum qualifications for internal audit classifications should be amended to expand the pool of applicants

Implemented

Following a discussion with the Chief Audit Executive Council, DAS updated the minimum qualifications to allow for an expanded pool of applicants based on additional types of possible experience. According to DAS, revised minimum qualifications are currently in use by agencies during recruitments. This change is timely because it expands the pool of possible applicants at a time when nine state agencies received approval to fill newly created internal audit positions.

Recommendation #3

Dedicate sufficient human resources for both statewide internal audit coordination and internal auditing within DAS

**Partially
implemented**

Ultimately, budgetary decisions are made by the Governor and the Legislature. However, DAS has increased its staffing to allow separate positions for both a Statewide Coordinator at an increased classification and an Internal Auditor dedicated to work on DAS. Our initial analysis based on the North Carolina model recommended that DAS have between three and five auditors for the agency's own internal audit function. This did not include the Statewide Coordinator position.

Recommendation #4

Evaluate whether the classification of the statewide internal audit coordination position is appropriate, relative to Chief Audit Executives throughout the state

Implemented

DAS has increased the classification of the statewide coordination position to reflect the additional responsibilities of coordinating internal audit in the state.

Recommendation #5

Propose changes to administrative rules to address concerns identified in this report, including those related to misalignment of reporting periods, audit committee composition, and functional and administrative reporting

**Not
implemented**

DAS has not yet started work on this recommendation. The agency's current plan is to begin review and revision of Oregon Administrative Rules in 2020.

Recommendation #6

Provide guidance to agency internal audit functions on minimum requirements for risk assessment processes, risk-based audits, and external reviews

**Partially
implemented**

DAS has prepared draft guidance that will be provided as part of a new mentorship program being developed for new agency internal audit functions; this guidance will be included in DAS's revised handbook. The draft program manual includes specific guidance on minimum requirements for an annual risk assessment, an annual audit based on the risk assessment, a governance audit every five years, and an external review within three to five years.

DAS and the Chief Audit Executive Council are currently implementing a limited pilot of the mentorship program. The necessary guidance will need to be provided to both new and existing internal audit functions for full implementation of this recommendation. Because some existing audit functions were not in full compliance with these requirements in state law, DAS will need to call their attention to these items specifically.

Recommendation #7

Develop a strategic plan to coordinate agency internal audit efforts, promote effectiveness, and ensure integrity of internal auditing in the state	Not implemented
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DAS has not yet started work on this recommendation.

Recommendation #8

Work with the Legislature to strengthen and clarify state laws related to internal auditing and DAS's role as a centralized coordinating body	Not implemented
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DAS has not yet started to work on this recommendation. The agency currently plans to review this recommendation for a possible request during the 2021 legislative session.

Recommendation #9

Develop guidance or criteria to determine when an exemption to the internal audit requirement is appropriate	Implemented
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DAS has developed a process for reviewing requests for exemptions on a case-by-case basis. In a letter DAS will be sending to directors of agencies that meet statutory requirements, but do not yet have an internal audit function, DAS describes the requirements for requesting an exemption. These requirements include:

- The request must be submitted in writing;
- The agency must include:
 - A reason for the request;
 - The special circumstances that warrant the exemption; and
 - The agency's plan to meet the requirement to have an internal audit function.

The exemption would last until the end of the biennium, at which point the agency would need to submit a new request for the exemption to continue.

Recommendation #10

Inform agencies that meet the current criteria that they are required to have an internal audit function	Implemented
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DAS has completed its letter to directors and Frequently Asked Questions document, and it has informed agencies known to meet the current criteria that they are required to have an internal audit function.

Recommendation #11

Develop a formal process to track which agencies meet statutory requirements for establishing an internal audit function

**Partially
implemented**

On odd-numbered years after the end of the long legislative session and after budgets have been reconciled, DAS reviews agencies' updated staffing, budgets, and expenditures to determine whether they are required by statute to have an internal audit function. DAS compares the list of agencies that meet one or more of the requirements with the list of agencies that have an internal audit function or have just been approved for a new internal audit position by the Legislature.

Our review of this comparison indicates DAS does not include independent agencies such as the Judicial Department, the Criminal Justice Commission, or the Public Defense Services Commission, all of which have budgets larger than \$100 million, one factor that requires them to have an internal audit function. In our original audit, we identified where DAS has been given statutory responsibility for coordinating internal audit outside of the executive branch. DAS still needs to identify a method to collect information from agencies outside the executive branch to include in their tracking system.

For agencies that meet the requirement, but do not have either an existing or recently approved internal audit function, DAS has stated it intends to send a letter to the director informing them of the requirement and describing the process to request an exception. DAS also has the guidance contained in the letter available as an FAQ.

Recommendation #12

Adjust the current criteria in state rules for the internal audit requirement to clearly identify state agencies that face the highest levels of risk. This should include a review of the types of transactions considered as "cash processed," the levels of expenditure and staffing set more than a decade ago, and a consideration of other risk factors

**Not
implemented**

DAS has not yet started work on this recommendation. The agency's current plan is to begin review and revision of Oregon Administrative Rules in 2020.

Recommendation #13

Make training materials available to new and existing internal audit staff at state agencies, including trainings that would enable staff members to participate in external peer reviews at other agencies

**Partially
implemented**

While DAS does not provide formalized trainings directly, guests from the Institute of Internal Auditors and others have provided information about trainings at Chief Audit Executive Council meetings. DAS and the Chief Audit Executive Council have also started a program matching new and experienced Chief Audit Executives for mentorship.

To support auditors who would like to be able to access and participate in peer reviews at other agencies, DAS is maintaining a list of those who are qualified to lead peer reviews and those who would like to participate to gain the experience that qualify them to lead future reviews. DAS is not directly coordinating trainings to enable participation in external peer reviews.

Recommendation #14

Provide training materials to new and existing audit committee members, including training on how to maintain the independence of the audit function and what work products to expect

**Not
implemented**

DAS currently has an outdated handbook for audit committee members that the Chief Audit Executive Council has started to revise. DAS also plans to hold in-person visits at agencies and develop a Frequently Asked Questions document specifically for audit committee chairs.

Recommendation #15

Revise the annual report on statewide internal audit activities to ensure it is clear, accurate, and helpful for internal audit stakeholders; includes meaningful information on internal audit performance; describes conformance with professional standards and state requirements; and details the costs and outcomes of internal audit contracting

**Partially
implemented**

An annual report on statewide internal audit activities in 2017 was due to the Legislature only a few months after the release of the original audit, giving DAS little time to make substantive changes based on our recommendations. The report on activities in 2018 does have some improvements, such as an updated visual layout and additional information on consulting engagements, but many of our concerns remain and there are a few areas that may have declined further.

Specifically, there is no analysis of the actual performance of the individual audit functions and the report reads as either positive or neutral without pointing out where agencies have fallen short. Agencies that are not currently in compliance with professional standards and statutory requirements are not identified, leaving it to the reader to compare the information that is presented against a description of criteria that appears at the end of the report, which may require a deeper analysis than many readers of the report are likely to do. The information provided on internal audit staffing is less clear than in past reports.

DAS developed a form it will use to collect information for internal audit activities from July 2018 through June 2019. The information DAS plans to collect is promising, but how it chooses to analyze and present it will be important. We have not seen a template for the report based on the new collection.

Recommendation #16

Convene an internal audit working group including stakeholders such as state CAEs and professional auditing organizations to determine the appropriate level of centralization for internal audit functions in Oregon

**Not
implemented**

DAS has not yet started work on this recommendation.

Conclusion

DAS has made progress toward addressing our recommendations. The agency, with the support of the Chief Audit Executive Council, has:

- Updated the minimum qualifications to allow for an expanded pool of applicants based on additional types of possible experience;
- Prepared draft guidance that will be provided as part of a new mentorship program being developed for new agency internal audit functions;

- Developed a process for reviewing requests for exemptions on a case-by-case basis; and
- Increased staffing to allow separate positions for both a Statewide Coordinator at an increased classification and an Internal Auditor dedicated to work on DAS.

Additionally, DAS has made some progress toward developing a formal process to track which agencies meet statutory requirements for establishing an internal audit function and updating its annual report with some improvements, such as an updated visual layout and additional information on consulting engagements. Additional improvements still need to be made in these areas to meet the recommendations in our original report.

While our recommendations regarding increased staffing were directed only to DAS, adequate staffing for internal audit functions was an issue statewide. After the audit was released, the Legislature approved funding in the 2019-21 budget for new internal audit positions at eight other agencies. DAS's efforts to change minimum qualifications for new audit staff and connect new Chief Audit Executives with experienced mentors are well timed to support this increase.

For six of our recommendations, DAS has not demonstrated any progress toward implementation. Significantly, the agency has not developed, or started the process to develop, a strategic plan to coordinate agency internal audit efforts, promote effectiveness, and ensure integrity of internal auditing in the state. Without a strategic vision to guide decision-making, there is a risk that implementation of other recommendations will not be as effective as they would be with a strategic plan in place.



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About the Secretary of State Audits Division

The Oregon Constitution provides that the Secretary of State shall be, by virtue of the office, Auditor of Public Accounts. The Audits Division performs this duty. The division reports to the elected Secretary of State and is independent of other agencies within the Executive, Legislative, and Judicial branches of Oregon government. The division has constitutional authority to audit all state officers, agencies, boards and commissions as well as administer municipal audit law.

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