




2022-23 Audit Plan



Secretary of State
Shemia Fagan



Audits Director
Kip Memmott



All Oregonians benefit from effective, well-managed public services. This year, thanks to the critical work of the Audits Division, state agencies will gain valuable insight into how to improve outcomes in drug treatment, education, housing, and many other areas that impact the lives of people who live and work in Oregon.

This audit plan is a collaborative effort. It would not be possible without Audits Director Kip Memmott, Governor Kate Brown, the Joint Committee on Legislative Audits, leadership at all Oregon state agencies, and the Legislature. I thank them for their ongoing cooperation and commitment to helping the Audits Division in serving the people of Oregon.

I especially want to thank the staff in the Audits Division. Like the rest of the team within the Secretary of State's Office, they have shown immense resilience and professionalism in the face of a difficult year. Their work plays a direct role in improving the lives of Oregonians. They should be proud of the quality of the audits they've continued to conduct and report on. I know I am.

— *Shemia Fagan, Secretary of State*

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New performance audits

In addition to an independent risk assessment process, the following audits were selected after consultation with the Governor's Office, agency directors, members of the Legislature, and state government stakeholders, including community and advocacy groups as well as individual Oregonians. Audits are most successful when there is buy-in and collaboration with the auditees and we consider stakeholder feedback a key component of our risk assessment ([see pg. 13](#)).

The demand for audit services is high and the division must be thoughtful and strategic when deploying our limited resources. Our capacity is driven by several factors, among them a number of ongoing audits initiated under a previous audit plan ([see pg. 9](#)) and change management and professional development priorities. Division staff have been resilient and productive throughout the pandemic despite the substantive challenges in their professional and personal lives, including working on full-time remote work schedules. Secretary Fagan is committed to investing time and resources into the well-being of the Audits team.



Racing Oversight and Regulation

Oregon Racing Commission

This audit's focus will be on the regulatory and oversight structure of the Oregon Racing Commission. Six Tribal governments signed a letter to the Secretary of State requesting this audit; while not the sole determinant, this request was a key consideration. The gaming industry has changed dramatically in recent years, owing to technological advancements and statutory changes allowing greater public access to gaming and expansion of gaming types. These changes bring a variety of inherent risks to the state, which this audit is seeking to identify, assess, and where possible, provide public assurance.

A possible audit objective includes risks related to gambling addiction with an emphasis on disproportionate impacts on underrepresented communities.



Measure 110 Program Design and Control

Oregon Health Authority

On November 3, 2020, Oregon voters passed Measure 110, significantly changing how the state deals with the use of illegal drugs. Part of that change included establishing a Treatment and Recovery Services fund, financed with marijuana revenues. The measure, as modified by Senate Bill 755, requires the Secretary of State to conduct financial and performance audits on the uses and effectiveness of the fund.

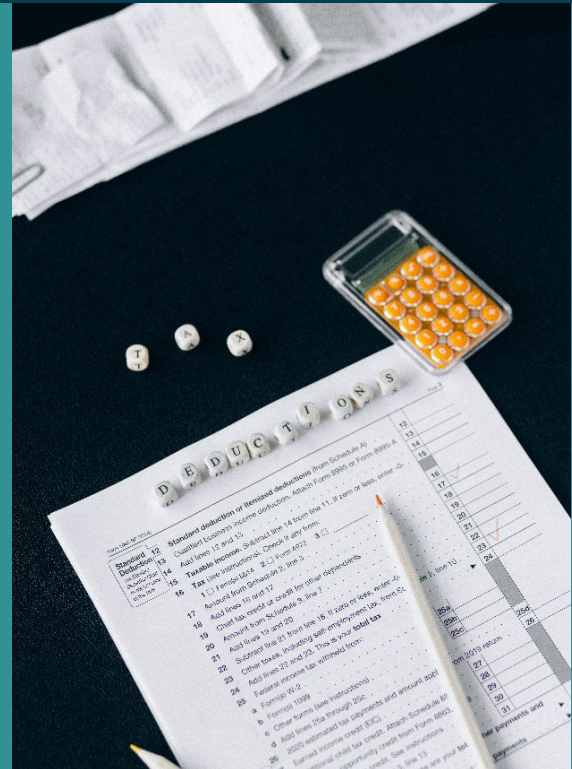
These audits are required to examine specific elements of the Measure 110 grant programs and new Behavioral Health Resource Networks, including the effectiveness of grants in increasing access to treatment and other recovery services, and the outcomes of the program. The audits are also required to include data on the number of Class E violations issued and to examine potential demographic disparities of people who have received citations.

Oregon Tax Policy Efficacy

The Governor's Office and Department of Revenue

This audit will include a risk assessment of Oregon tax policies to identify a multi-year plan to audit these risks, and an assessment of Oregon's formal sunset review process for tax credits.

In addition to the general risk assessment, this audit may include an objective examining property tax assessment with a specific focus on equity. Possible audit objectives may include a review of the accuracy and consistency of property tax assessments, including risks creating inequity for people in different neighborhoods or income levels. The report may include a discussion on the efficacy of Oregon's Constitutional "kicker" requirement.



High School Graduation and College and Career Readiness Act (Measure 98)

Department of Education

Oregon law requires an audit of the uses and effectiveness of the fund established by Measure 98, otherwise known as the High School Graduation and College Readiness Act. The act allocates funds to several programs, including career and technical education, college-level educational opportunities, and drop-out prevention strategies.

The Audits Division issued its initial audit in 2020, focused on governance and controls. That audit was done in "real-time" owing to the early status of the program's implementation. This audit will be examining the act's program areas and, per statute, will be issued by December 31, 2022.



Rental Assistance Program

Oregon Housing and Community Services Department

The pandemic had a devastating impact on Oregonians, especially with regards to housing for those who lost their jobs or income. In December 2021, the Legislature provided emergency funding for rental assistance, including approving \$215 million in funding to continue renter protection.

The state is facing criticism for stopping the application process for these funds even though it has been reported Oregon was one of the timeliest states issuing rental assistance. Issues cited by legislators and other stakeholders include technical challenges with rental assistance software and public communication challenges. The division has received a letter requesting an audit of the department by the chairs of the Senate and House housing committees.

Medicaid Pharmacy Benefit Managers

Oregon Health Authority

Medicaid is inherently high risk and expensive. The Audits Division has already executed several high-impact audits in this area, but there are many remaining risks. Oregon's Coordinated Care Organization (CCO) model has some specific risks.

This audit will focus on Pharmacy Benefit Managers, the middle broker between drug manufacturers, health insurers, and pharmacies. They determine what drugs are covered by health insurance providers, negotiate prices and rebates, and facilitate reimbursement to pharmacies for drugs they dispense. A U.S. Supreme Court ruling in 2021 clarified states have the power to regulate PBMs. Several recent audits of PBMs in other states have focused on the difference between what the state's Medicaid program paid the PBMs and what the PBMs pay pharmacies to dispense drugs. Each of the 15 CCOs in Oregon contract with a PBM.

In addition to being a high-risk area identified by division staff, several external stakeholders, including legislators, have expressed interest in this audit topic. Several states including Ohio, Arkansas, and Delaware have issued impactful audits examining PBM programs and risks.



State Workforce Governance and Modernization

Statewide

The pandemic fundamentally and permanently changed the Oregon state government workforce. This audit will seek to identify and assess the evolving workforce environment; offer recommendations for how the state can implement progressive, human capital management strategies; and provide assurance where the state is implementing leading and innovative personnel management practices.

This audit will include an objective examining mandatory employee overtime to ascertain the root causes for this overtime, its impact on employees, and to identify possible alternative strategies.

New information technology audits

Cybersecurity Audits

Department of Corrections

The division has issued a number of cybersecurity audits at several state agencies. The purpose of these audits is to determine whether state agencies have effective and efficient IT security frameworks and control structures.

The division initiated a cybersecurity audit of the Department of Corrections in December 2021. An additional cybersecurity audit will be performed during the year at an agency to be determined.



Integrated Eligibility System Controls

Oregon Department of Human Services and Oregon Health Authority

The division in 2020 executed a real-time audit of the implementation of the Integrated Eligibility system, now referred to as ONE. The system is intended to streamline the process by which Oregonians apply for critical social welfare services offered by these two agencies.

Overall, that audit found the implementation was proceeding well but did identify several risks. This project will include objectives to determine the appropriateness of security, system change processes, and manual processes and ensure data produced by this critical system meets data quality requirements for the agency's management of benefit programs and the division's mandated federal financial and compliance audit work.

Financial audits

Statewide Single Audit

In two parts: Financial and federal

A single audit is required by the federal government for the approximately \$12 billion in federal financial assistance Oregon receives each year. These audits determine whether amounts reported in Oregon's financial statements are materially correct and adequately supported; evaluate the state's administration of major federal programs for compliance with applicable laws, rules, and regulations; conclude on whether the Schedule of Expenditures of Federal Awards is fairly presented in relation to the state's financial statements; and review accounting and compliance control procedures.

The Single Audit, which accounts for a significant portion of the division's financial work, has two main components. The first is a financial audit of the State's financial statements and reporting on the schedule of expenditures of federal awards (SEFA) in relation to those financial statements. The second is a compliance audit of major federal awards expended during the fiscal year. Most of Oregon's biggest agencies are included in this audit.



Financial statement audits

The objective of these audits is to review internal accounting and compliance control procedures and to obtain reasonable assurance about whether the amounts reported in the financial statements are materially correct and adequately supported.

We annually audit the following programs and agencies:

Oregon State Treasury: Short-Term, Local Government Investment Fund, Intermediate Term Pool

Oregon Business Development Department: Special Public Works Fund and Water Fund

Oregon Department of Energy: Small Scale Energy Loan Program

Department of Environmental Quality: Clean Water Revolving Fund

Oregon Department of Higher Education: High School Graduation and College and Career Readiness Fund (*biennial audit*)

Oregon Health Authority: Oregon Health Insurance Marketplace

This audit also seeks to verify compliance with programmatic requirements set forth by federal regulations, state statute, and the Centers for Medicare & Medicaid Services.

Oregon Housing and Community Services

Oregon State Lottery

Oregon Department of Veterans' Affairs

Rollover performance and IT audits from the 2021-22 plan

A number of audits initiated by the division in 2021 will continue into 2022.

Release dates are tentative and subject to change.

MAR 21	APR 21	AUG 21	NOV 21	DEC 21	JAN-MAR 22 1 st quarter	APR-JUN 22 2 nd quarter	JUL-SEP 22 3 rd quarter	OCT-DEC 22 4 th quarter
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Department of Revenue: Home mortgage interest deduction policy efficacy

This audit is examining the efficacy and impacts of the statutory mortgage interest deduction and determining the distribution and equity of the benefit among Oregon homeowners.

Oregon Employment Department: Unemployment insurance program

This will be an audit to examine root causes for the substantive risks and performance issues related to the state's Unemployment Insurance Program that arose during the COVID-19 pandemic. The audit will also examine the adjudication process for potential inequities.

Higher Education Coordinating Commission and selected community colleges: Higher education sustainability

This project is examining how HECC can help community colleges enhance data use and student support to improve college performance, reduce equity gaps, and address substantial risks to college sustainability.

MAR 21	APR 21	AUG 21	NOV 21	DEC 21	JAN-MAR 22 1 st quarter	APR-JUN 22 2 nd quarter	JUL-SEP 22 3 rd quarter	OCT-DEC 22 4 th quarter
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Governor’s Office: Water governance impacts on water security

This audit will examine how the state’s water governance framework impacts the accessibility, quality, and sustainability of water resources for all Oregonians.

Business Oregon: Access to broadband internet access, digital equity

This audit will review policies and statutes related to high-speed internet access to identify opportunities to remove barriers to expansion into rural and other communities experiencing challenges accessing reliable and affordable broadband services.

Oregon Liquor and Cannabis Commission: Effectiveness and equity of cannabis licensing, compliance

This audit will examine OLCC regulatory oversight of the Oregon cannabis industry. Audit objectives may include examining the effectiveness and equity of OLCC licensing, compliance, and enforcement actions. The audit will likely make recommendations for the structure and resources needed to ensure an effective licensing and compliance system that supports equitable business growth. This audit may also use available disaggregated data regarding disproportional impacts. This audit may also consider BIPOC- and Tribal-owned businesses vs. venture capital ownership.

Non-audit special projects

The Audits Division has long been a national leader in many areas of audit work and is constantly pursuing innovative strategies rooted in our values of transparency and accountability. To this end, the division has previously developed a number of initiatives — among them non-audit advisory reports, cybersecurity control audits, and recommendation follow-up reports.

While the division maintains flexibility and may pursue some non-audit projects during the period covered by this audit plan, our priorities are audit work and staff professional development and well-being. For this reason, no specific non-audit projects have been identified for inclusion in the plan — with the exception of a new type of follow-up report.

Follow-up summary

In 2021, the division changed the audit follow-up program. The reason for the change was twofold: other work priorities and a desire to optimize the impact of the division's follow-up work. Instead of formal follow-up engagements on all audits, the division has adopted a risk-based approach.

All audits will get an initial follow-up. This entails a request from the division to the audited entity for a status on recommendation implementation and supporting documentation. The audit manager, with assistance from two staff assigned to administer the follow-up program and in consultation with the Audits Director, determines the approximate level of remaining risk and whether additional follow-up work is needed.

If so, a formal team and project is assigned, and a formal report will be issued. If it is determined the risk has been adequately addressed and no further follow-up work is needed, the information is logged into a follow-up database.

The division plans to issue a new annual audit follow-up status report to the Governor's Office, Joint Committee on Legislative Audits, and agency leadership. The division's capstone reporting strategy is focused on fleshing out and communicating systemic or chronic root causes for audit findings and recommendations. The goal is to promote more interest from stakeholders in audit follow-up analyses and to model follow-up reporting by state auditors with a highly collaborative relationships with their legislative bodies.

Advisory reports

These reports are distinct from audits in that they do not strictly adhere to Government Auditing Standards. Standards ensure audits are conducted systematically and findings and conclusions are accurate and supported by evidence; yet standards also require audits to follow a rigorous process that can be time-consuming. Through advisory reports, the division can conduct its work and report results in a more timely fashion.

It is important to note the Audits Division remains committed to ensuring the accuracy of its conclusions and findings, even with advisory reports. Therefore, all of our advisory reports follow the

same rigorous quality assurance process as each of the division's audits. We stand behind our evidence and the strength and precision of our conclusions.

These reports have been highly successful in communicating audit-grade information on a number of pressing issues to the state of Oregon. Most recently, the division released advisory reports assessing ODOT's efforts to mitigate hazardous trees in the wake of the 2020 wildfires and reporting on the unique risks and challenges faced by long-term care facilities during the pandemic.

New this year is the division's pilot capstone project: a systemic, root cause analysis related to equity findings from multiple audits of the Oregon Department of Education. The Governor's Office and ODE leadership have been informed and are supportive of the project.

The Audits Division will continue to issue these reports, evaluate their effectiveness, and improve upon them as needed.

Summary reports

The division also issues annual reports summarizing three significant programs: the State Government Accountability Hotline, the Municipal Audit Program, and the Statewide Single Audit.

State Government Accountability Hotline: In 1995, the Legislature created the hotline for employees and members of the public to report waste, inefficiency, or abuse by state agencies, state employees, or persons under contract with state agencies. The hotline was formerly known as [the Government Waste Hotline](#). The Audits Division is required to prepare and submit to the Legislature an annual report describing the number, nature, and resolution of reports made through the hotline.

Municipal Audit Program: Oregon's municipal corporations, as defined by [Municipal Audit Law](#), include all counties, cities, school districts, special districts, and public corporations subject to control by local governments. Municipal Audit Law provides instructions for the type and submission of annual reports that municipal corporations are required to submit to the Secretary of State. The law also requires the Secretary of State to prepare an annual summary report detailing which municipal corporations filed audit reports as required and which did not.

Keeping Oregon Accountable: The Audits Division annually audits the State of Oregon's financial statements and compliance with federal program requirements. The federal government requires these audits for the financial assistance Oregon receives annually. These audits determine whether amounts reported in Oregon's financial statements are materially correct and adequately supported; evaluate the state's administration of major federal programs for compliance with applicable laws, rules, and regulations; conclude on whether the Schedule of Expenditures of Federal Awards is fairly presented in relation to the state's financial statements; and review accounting and compliance control procedures. We annually prepare a report summarizing the results of these audits.

About the plan

The mission of the Oregon Audits Division is to protect the public interest and improve Oregon government. A key component of this mission is the division's annual audit plan, which lists the agencies, programs, and topics prioritized for audits in the coming year.

The annual audit plan demonstrates two key philosophies of the Audits Division: **our commitment to building public trust and transparency, and our emphasis on being agile and responsive to critical issues facing the state**. We are committed to completing the audits listed in the plan; however, our risk assessment process is continuous. The plan is a flexible document, and we will redirect audit resources as necessary to address critical issues facing the state.

While we maintain flexibility to address these emerging issues and risks, government audit standards require any audit initiated be completed unless circumstances arise that justify its termination. Any decision to terminate an audit must be documented and publicly reported. We follow professional standards and guidelines in both developing and executing this audit plan.

We select and prioritize audits using a risk-assessment approach

Audits are all about risk. There will always be inherent risks in state government owing to the size of budgets, the vulnerable populations served, and the important work state agencies do in service of Oregonians.

Since we cannot feasibly audit all of state government all the time, we carefully prioritize our resources and generally go where the risk is highest. To determine that, our audit plan is developed using a risk-assessment process. This process is based on specific factors relating to the quality of internal controls and the liability and level of exposure to the state of various agencies, programs, or activities.

Our risk assessment considers all of the following factors:

- The direction of the elected Secretary of State
- Industry-standard risk assessment criteria
- Previous audits of agency operations and internal controls
- Trend analyses to identify recurring audit findings and control deficiencies
- Audit follow-up and recommendation tracking
- The state's Single Audit Reports and audit management letters
- Input from elected officials, including the Governor's Office and members of the Joint Committee on Legislative Audits
- Input from agency management, other public sector audit organizations, and members of the public
- Priorities and work products of other leading government audit functions
- Size of audited agency or program
- Compliance and regulations
- Pending or recent legislation
- Complexity of transactions
- Fiscal sustainability
- Management accountability
- Quality of internal control system
- Age of program or operation
- Audit history
- Public health and safety
- Critical infrastructure
- Short- and long-term strategic risks

- Topics informed and suggested by research conducted by Audits Division staff
- Current events and trends, financial conditions, and public policy issues, including emerging policy
- Equity, inclusion, and diversity risks and frameworks
- Related litigation and relevant case law
- Emerging risk areas



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