



Oregon Secretary of State

Bev Clarno, Secretary of State

Kip Memmott, Director, Audits Division

Audits Division Overview and Protocols

Introduction

This document provides an overview of the Secretary of State, Audits Division's work and establishes protocols for our interactions with the entities we audit (referred to here as "agencies").

These protocols describe how the Audits Division (Division) carries out its work at agencies and mutual expectations during the course of an audit. While we cannot anticipate all situations, these protocols should help us ensure consistency, fairness, and effectiveness in our interactions with agencies. These interactions include communications between the Division and agencies, interactions during the course of work, and follow-up on recommendations.

The Division and agency internal auditors are all part of the accountability community. The relationships between the Division and internal auditors are considered additional to these protocols. The objectives of our relations with internal auditors are to sustain constructive working relationships that leverage resources, build a mutual knowledge base, and maximize the oversight of state programs, offices, and activities.

To effectively do our work, the Division must be professional, objective, fact-based, nonpartisan, non-ideological, fair, and balanced in all it does. We are committed to meeting the highest level of professional standards while conducting audits, evaluations, and investigations. We perform our audit and analytical work in accordance with generally accepted government auditing standards ("Yellow Book" standards), which can be found at www.gao.gov.

Mission

Auditing to Protect the Public Interest and Improve Oregon Government

In 1929, the legislature established the Division of Audits to carry out the duties of the Secretary of State as the constitutional Auditor of Public Accounts. The Audits Division is the only independent auditing organization in the state with authority to review agency programs in all three branches of state government and other organizations that receive state money. The Secretary of State helps ensure that state government is accountable to the citizens of Oregon. The authority for and responsibilities of the Audits Division are found in the Oregon Constitution and in sections 297.010 through 297.545 of the Oregon Revised Statutes.

Our Work

Financial Audits

One of the primary audits the Division conducts each year is the Statewide Single Audit. This audit includes an annual audit of the State of Oregon's financial statements and the state's internal controls and compliance with federal program requirements. We perform the Single Audit to satisfy the Legislature, the governor, and citizens that the state's financial statements are presented fairly and that significant deficiencies in fiscal systems are identified and corrected. We also conduct this audit to fulfill the federal government's mandate to audit the more than \$11 billion it provides the state each year. Because underwriters, bond rating companies, and potential investors may rely on these statements and opinions, the audit work we perform represents a critical element in the state's financial system.

In connection with the statewide audit, the Division conducts and contracts with private sector firms to perform financial statement opinion audits of various agencies. Fiscal resource management audits, which focus on improving fiscal controls, are also a part of the financial audit function.

Performance Audits

Performance auditing is an objective and systematic examination of evidence to provide an independent assessment of a government organization, program, activity, or function. The goal of these audits is to provide information to improve public accountability and facilitate decision-making by parties with responsibility for overseeing or initiating corrective action. The issues that performance audits cover vary, but generally address whether agencies are operating economically and efficiently, or whether they are achieving desired results.

Information Technology Audits

Information technology audits fall into four major categories: general control reviews, application control reviews, security reviews, or system development reviews. General control reviews evaluate the controls designed to protect the environment in which systems operate, including system backup, physical and logical security, and disaster recovery procedures. Application control reviews look at specific computer applications to see if the data remains complete, accurate, and valid during input, update, processing, and storage. Security reviews can focus on an agency's overall security framework or on specific aspects of security. Finally, system development reviews evaluate controls governing acquisition, implementation, and maintenance of computer systems.

Investigations

The Division receives and investigates allegations related to improper governmental activities by state employees or agencies. Some investigations result from calls received on our Government Waste Hotline. Others are initiated when our auditors become aware of inappropriate or suspicious activity during the course of other audit work. The Division may also conduct investigations after being notified of potential problems by agency managers and other government officials. The Government Waste Hotline laws establish the Division's investigatory obligations in ORS 177.170 and 177.180.

The Division is committed to notifying the subject agency as early in the process as is practical about an investigation except when, in the opinion of the Director, such notification may compromise the investigation.

Although the Division investigates improper governmental activities, we do not have enforcement powers. After we substantiate an allegation, we report the details to the agency and other appropriate authorities.

Municipal Audit Program

Many local governments contract with accounting firms to audit their financial statements. To ensure these audits are properly conducted, the Division prescribes, revises, and maintains minimum standards for conducting and reporting audits and reviews of local governments. The Division works in accordance with statutory provisions, and in cooperation with the State Board of Accountancy and the Oregon Society of Certified Public Accountants to communicate expectations and suggest improvements. We also evaluate the audit reports and reviews of these local governments and the auditors' work papers for compliance with the prescribed standards.

Non-Audit Services

On occasion, the Division provides non-audit services such as training and presentations, consultative services, peer review services, and ex-officio membership on boards or committees.

Constitutional and Statutory Responsibilities

Beginning with the definition of responsibilities for the first territorial auditor, through recent legislative sessions, the role of the state auditor has evolved and expanded. The legislature has seen fit to include statutory audit responsibilities for the Division as a part of numerous new laws and programs. Through this evolution, one constant has been maintained: the independent State Auditor is to act as he/she deems appropriate in order to ensure state government is fiscally responsible and accountable to the citizens of Oregon.

Constitutional

Article VI, Section 2. Duties of Secretary of State

The Secretary of State shall keep a fair record of the official acts of the Legislative Assembly, and Executive Branch of the State; and shall when required lay the same, and all matters relative thereto before either chamber of the Legislative Assembly. The Secretary of State shall be by virtue of holding the office, Auditor of Public Accounts, and shall perform such other duties as shall be assigned to the Secretary of State by law.

Oregon Revised Statute – Key Provisions

ORS 297.210 Audits of accounts of state agencies and state-aided institutions and agencies; performance audits of school and education service districts; audits of state-to-county fund transfers; subpoena; audits on retirement of certain personnel; rules

(1)(a) The Secretary of State, as State Auditor, shall have the accounts and financial affairs of state departments, boards, commissions, institutions and state-aided institutions and agencies of the state reviewed or audited as the Secretary of State considers advisable or necessary.

(1)(d) The Secretary of State may subpoena witnesses, require the production of books and papers and rendering of reports in such manner and form as the Secretary of State requires and may do all things necessary to secure a full and thorough investigation.

(1)(e) The Secretary of State shall report, in writing, to the Governor. The report shall include a copy of the report on each audit.

Territorial Statute

The Oregon Territorial Statute, in defining the duties of the territorial auditor, said that the auditor was to act “as he may deem expedient to lessen the public expenses, use public money to best advantage, promote frugality in public office, and generally, for better management.”

Attorney General Opinions

In addition, in response to questions, the legal opinions of the Attorney General have helped clarify the authority and duties of the Secretary of State.

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| 5/18/79 | No. 7759 | May the Legislative Assembly delegate any aspect of the audit function assigned to the Secretary of State pursuant to Article VI, Section 2 of the Oregon Constitution to any other branch of state government? <i>Answer: No.</i> |
| 12/1/89 | No. 8211 | Do the constitutional duties of the Secretary of State include the duty to report recommendations for lessening the public expense, promoting frugality and economy in public office, and generally, for the better management and more perfect understanding of the fiscal affairs of the state? <i>Answer: Yes.</i> |
| 6/12/92 | No. 8222 | Does the Secretary of State have the authority to require public officials maintaining the accounts for any agency, instrumentality or branch of Oregon State Government, to prepare and file financial reports in a form he determines necessary to carry out his duties as Auditor of Public Accounts? <i>Answer: Yes.</i> |

Communications Between the Division and Agencies

The Division is committed to maintaining constructive and continuing communication with agencies. These communications may take several forms including meetings between members of Division management and the heads of agencies or their designees to discuss areas of mutual interest or concern, and specific communications with an agency pertaining to planned and ongoing work.

When the Division initiates work at an agency, we will designate a primary point of contact who will be available throughout the engagement to respond to agency requests regarding the status of work and address concerns about the work's scope or approach. In turn, the Division expects the agency to designate a point of contact who is knowledgeable about the agency's relevant programs and organization. The agency-designated contact should be able to, among other things, set up necessary meetings (such as entrance, exit, and agency update meetings), identify and ensure that we meet with the appropriate agency representatives, help resolve problems, and coordinate agency comments on any draft product that may result from the work.

In response to inquiries from parties not involved in a particular ongoing review, the Division will only provide information about the objectives, scope, and methodology of the review; and the expected completion date, when known. We will not release information about potential findings, conclusions, or recommendations until a final report has been completed and is officially released to the public.

Notification of Division Work

Before beginning any new engagement that requires the Division to seek information, data, or both from an agency, we generally notify the agency of the work to be undertaken. However, when we conduct an investigation we may not notify the agency of the work if doing so might jeopardize the investigation. To the extent practical, notice to an agency will identify the:

- general objective or purpose for the work;
- team performing the engagement;
- points of contact (name, phone, email); and
- initial agency or program information we would like.

If the objectives of the work to be performed change significantly, or if the location of the work needs to be modified, we will notify the agency-designated liaison or primary point of contact.

The Division will generally provide written notification to the agencies involved in the work. For certain types of work to be performed at an

agency, we may initially provide only telephone or email message notification. Such work includes:

- preliminary work on a topic prior to beginning a formal audit, to determine whether the audit topic is worthy of committing audit resources, or
- contacting agency personnel to gather additional information regarding an audit topic when the agency is not the subject of the audit.

Entrance Conference

An entrance conference is a meeting the Division holds with agency officials at the start of an engagement. We anticipate that an agency will arrange for its personnel to be available for an entrance conference within 10 working days after receiving our request for a meeting. At the entrance conference, we will discuss the (1) reasons for the work; (2) roles and responsibilities of our staff; (3) information needs (e.g., data and access to agency officials); (4) scope and key objectives, to the extent known; (5) sites where we expect to conduct work, when known; and (6) need for any precautions to protect data and information. To the extent possible, we will provide the agency with an estimate of how long the work will take.

During the entrance conference, we will ask agency officials to designate a key contact to assist, as applicable, in obtaining temporary office space if necessary, as well as telephone and internet access needed to complete our audit. In addition, Division staff may request that agency officials identify knowledgeable agency personnel and discuss the kinds of information that would be useful to carry out the audit, such as relevant studies or electronic data.

The attendance of key agency officials—those responsible for work related to our audit objectives—at the entrance conference enhances the opportunity for a substantive exchange of information.

In certain cases, the Division's work involves crosscutting issues at more than one agency. For such audits, we may hold the entrance conference with applicable central agencies, such as the Department of Administrative Services (DAS). If requested, we will consider including all agencies under audit at a single entrance conference or holding separate entrance conferences with specific agencies.

Generally, the Division will not hold an entrance conference when we are (1) conducting preliminary research on a topic where an audit is not yet certain, (2) performing work that is closely related to ongoing work, and/or (3) updating the implementation status of recommendations made in previously issued reports.

Communications with LFO and DAS

As the Division moves forward with an audit project, we will copy the Legislative Fiscal Office (LFO) on the audit engagement email. We may also contact LFO to obtain background information and perspectives that could help produce an audit of value to decision-makers.

The Division will copy the Chief Operating Officer on all audit reports and management letters. We will also provide DAS with regular audit updates on relevant issues, as well as a copy of the final draft report for these audits.

Update and Findings Meetings

After beginning the engagement, to the extent appropriate, Division staff will hold regular update meetings. As the end of fieldwork approaches, our staff will hold a findings meeting. The update and findings meetings will be held with agency officials or designees who have oversight for issues relating to the audit objectives. The purpose of the update and findings meetings is to apprise agency management of the results of work to date and ensure that our staff has been provided with a full understanding of the information they have gathered and its relevance to the engagement's objectives. In deciding whether or not to hold an update meeting, we will consider the preferences of the agency officials, the extent of work completed since the last update, and the complexity of the issues at hand.

This process is not intended to preclude any additional meetings that may be necessary to clarify audit issues or questions.

At update or findings meetings, we may identify the need for additional information. In addition, as appropriate, these meetings may cover the extent to which data and documentation have been made available and access to relevant agency officials has been provided. Generally, any discussion of conclusions or potential recommendations at update or findings meetings is considered preliminary. Any additional input or context that the agency can provide at these meetings is appreciated and will typically lead to better conclusions and recommendations.

Working Draft and Exit Conference

After fieldwork has been completed, the Division will prepare a working draft of the audit report for agency review and discussion. Shortly after sending the working draft, a member of the audit team will contact the agency liaison to schedule a formal exit conference to discuss the draft. We will work with the liaison to schedule the exit conference within 10 working days of sending the working draft.

The purpose of the exit conference is to resolve any questions regarding the critical facts and key information supporting our analysis, findings and

recommendations. In addition, questions and concerns about the wording and presentation of the report can be addressed. Auditors responsible for the engagement and agency officials responsible for the audited areas are expected to attend the meeting.

The Division will try to reach agreement on any changes to the report. However, we may need additional time if the agency disagrees with our draft findings, conclusions, and recommendations. We will accept further explanations from agency officials in support of the agency's position, but the agency is expected to provide documented evidence supporting its position if it materially affects the content of the report.

After considering information and feedback the agency provides at the exit conference, we will make any necessary changes to the working draft. We will then send a final response draft to the agency.

Agency Response to Final Draft

Unless the Division Director approves an extension, we expect that the agency will respond in writing to the findings and recommendations in the final response draft within 5 working days. The Director will grant an extension only if, in his or her judgment, it is necessary for the agency to fairly present its views. An extension requested solely to delay the release of a report will not be granted. The Division reserves the right to issue the report to the public without an agency response if the agency does not respond within the time allotted. In such cases, we will state in the report that we provided the agency with the opportunity to respond, but the agency declined to do so or did not do so within the required timeframe.

The response, signed by the responsible agency official, may be provided as a scanned electronic file, or hardcopy, although a scanned electronic copy is preferred. The agency should include in its response the actions it has taken or plans to take in response to the audit report and an estimated time frame for their implementation. The agency's response will be included in the final report. The Division reserves the right to respond to an agency's response if the contents of the response are not factual or if, in the judgment of the Director, the response requires clarification. We will notify the agency of the disagreement prior to the release of the report and will give the agency the opportunity to amend its written report response.

Safeguarding Draft Reports and Documentation

The Division's draft products are subject to further review and revision and are not to be considered final. Early disclosure could result in the dissemination of erroneous information or recommendations. Therefore, the agency should limit and control the distribution of draft reports. In addition, except for the final response draft, draft reports and audit documentation are not subject to public records requests until the final audit report has been released.

The Division has structured documentation request and disclosure procedures to help minimize misinterpretations of audit information, and to preserve the confidentiality of information protected by statute. Accordingly, Division and agency officials should notify each other of any external requests for documentation or agency information related to the audit to ensure proper handling.

The Public Report

The written public report is generally the best vehicle for communicating the results of each audit. The Division will provide the agency with the expected date for releasing an audit report.

In some instances, statutes preclude the public release of specific audit results of a confidential nature. In those instances, a separate confidential report will be prepared and forwarded to the audited agency. At the discretion of the Division Director, the confidential report may be provided and sent to other interested state decision-makers.

The public report will be posted on the Secretary of State website sos.oregon.gov/audits. Additional hard copies of the report can be provided to the agency upon request.

Legislative Testimony

Legislative committees frequently request that the Division prepare testimony and appear at hearings. If the Division is asked to testify on an audit prior to its public release, we will provide a description of the work in process that will include the objective of the audit, scope, methodology employed, and expected release date of the public report. The results of the audit work completed to that date will not be provided.

When the Division testifies about a publicly released report and/or management letter, the testimony will be fact-based and the conclusions and recommendations will mirror those contained in the written report and/or management letter. Those providing Division testimony will do what they can to avoid inferring or explicitly stating facts or conclusion not addressed in the public report. In addition, the Division will seek to ensure that the public testimony is fair and balanced.

As a matter of courtesy, the Division will attempt to contact an agency in advance of public testimony and is willing to share the general substance of testimony with the subject agency.

Follow-up on Recommendations

The Division's recommendations are intended to improve the economy, efficiency, and effectiveness of an agency's operations and to improve the

accountability of state government for the benefit of the citizens of Oregon. Consequently, we monitor and annually report on agency progress in implementing recommendations as a measure of our results. To accomplish this monitoring, we maintain a database of recommendations, with the status updated annually.

We ask agencies to classify the status of recommendations in one of the following categories:

- Fully implemented/resolved
- Partially implemented - in progress
- Partially implemented - no further action to be taken
- Not yet started
- Decline to implement

The Division will follow up on recommendations as part of recurring audit work or as an activity separate from any other audit activity. When following up on recommendations, we may ask the agency to provide evidence of implementation.

Access to Auditee Information

The Division expects unfettered access to agency information. As stated in ORS 297.210, “The Secretary of State may subpoena witnesses, require production of books and papers and renderings of reports in such manner and form as the Secretary of State requires and may do all things necessary to secure a full and thorough investigation.” Oregon Revised Statutes state, and Attorney General opinions have held, that the Division is entitled access to any agency information that in the judgment of the State Auditor is necessary for completion of the audit work.

That said, we are committed to minimizing the time and resources we require of an audited agency. Our personnel understand that an audit, and any agency resources needed in support of an audit, is not a normal part of the agency's business. Therefore, we will do what we can to facilitate an efficient information exchange. This should include advance notification of such things as:

- interviews with agency personnel, other than a quick follow up;
- a download of data that requires agency resources or assistance;
- information system access; and
- entrance and exit conferences.

In return, we expect the agency to provide us direct access to agency personnel, documents, or electronic information needed for the timely completion of the audit.

For any confidential information the agency provides, the Division “stands in the shoes of the auditee.” If the agency has reason to hold information confidential, we will similarly hold the information confidential. The Division is regularly asked to maintain the confidentiality of sensitive or legally confidential information. Our processes and practices are designed to secure confidential information so that it cannot be accessed or used improperly.

Press Policy

The Secretary of State may issue a press release that highlights the results of Division reports. Generally, a press release will be issued on the same day the corresponding report is released. It will be provided to all major media outlets in the state and will also be posted on the Secretary’s website at: <http://oregonsosblog.us/>

In addition to the press release, Division contacts will be available to help the media understand a particular audit topic once the report has been released. The following guidelines apply for press contacts:

- The first point of contact for press inquiries is the Secretary of State’s Communications Director who can be reached at (503) 986-1500.
- All contacts with the Division will be handled at the management level and will be cleared through the appropriate deputy director or director prior to any detailed discussion with the media representative.
- No Division personnel, other than the director or as directed by the director, will give a quote or do an on-camera or on-the-air interview.
- As a matter of courtesy, the Division will attempt to contact the agency that is the subject of the media inquiry and advise them that a media contact has occurred.

Copies may be obtained from:

website: sos.oregon.gov/audits

phone: 503-986-2255

mail: Oregon Audits Division
255 Capitol Street NE, Suite 500
Salem, Oregon 97310