

Oregon State Lottery Internal Audit

Frequently Asked Questions (FAQ)

The purpose of these FAQ's is to help to make the Lottery community more comfortable with our office and the work being completed by our staff. The Internal Audit Department (Internal Audit) will always try to make the audit experience more helpful to our customers. Many departments consider an audit as an opportunity to enhance their operations as a department and the Lottery as a whole. We are here to help the Lottery to meet its mission and goals.

1. What does Internal Audit do?

"We are here to help!"

- Provide an independent review function to evaluate the efficiency of operations and compliance with policies, procedures, and laws and regulations
- Work on special projects related to specific issues, systems, and processes, upon requests by the Audit Committee and individual departments

2. Why do we need Internal Audit?

"Help the Lottery to meet its mission and goals!"

Internal Audit serves as:

- An independent, objective assurance function. For example, we provide assurance to the Audit Committee and management that functional areas are operating efficiently and effectively and have sound internal controls.
- A consulting resource for Lottery management to obtain advice on financial, operational, performance, information systems, and security issues, controls, and procedures
- Lottery's safety nest for compliance with rules and regulations
- Liaison with external auditors, including the Secretary of State's audits division

3. Who does Internal Audit report to?

Internal Audit has been established to provide an independent and objective view of the Lottery operations. As a department, we report to the Director and the Audit Committee. The Audit Committee is composed of:

- Pamela Fogg, Commissioner
- LeRon Howland, Commissioner
- Dale Penn, Lottery Director

4. Who Audits Internal Audit?

- a. Internal Audit performs a biennial self-assessment required by the *International Standards for the Professional Practice of Internal Auditing (Standards)* to determine the degree the internal audit activities conform to the *Standards*.
- b. Internal Audit is required by the *Standards* to obtain a periodic (every 5 years) external quality assurance review to assess compliance with the *Standards*. Our last audit was performed 6 years ago by a team of two Lottery auditors – one from Georgia and one from California.

5. What is the difference between Internal Audit and external auditors (e.g., Secretary of State - Audit Division?)

Internal auditors are integral to the organization and provide ongoing monitoring and assessment of all activities. External auditors are independent of the organization, and provide an annual opinion on the financial statements

- Internal Audit is part of the Lottery. Our primary clients are management and the Audit Committee.
- External auditors are NOT part of the Lottery. Their objectives are primarily set by statute. They report to Oregon citizens on the accountability of state government.

One of our primary goals is to protect the Lottery; therefore, we consider areas that external auditors will review. We want to review them first and resolve any issues internally. We believe it is preferable for Internal Audit to work with you to improve Lottery operations as a business partner rather than external auditors issuing reports of findings to the public (e.g., newspapers)

6. How is my department selected for an audit?

There are several ways a department could be chosen for an audit:

❖ **Risk Assessment:**

Internal Audit uses a risk-based approach to decide which departments to audit during a given calendar year. Areas are scored using numerical risk-based factors. These scores are ranked for an overall risk value and audits are scheduled to focus on the highest risk areas. Factors used in the evaluation include:

- Materiality of dollars or volume of transactions related to the department or process
- Impact on the department's credibility resulting from a control breakdown
- Effect that the department has on the Lottery meeting its mission and goals
- Complexity of the process
- Changes in the department such as employee turnover, and changes in processes or procedures
- Laws and regulations related to the department or process

- Management concerns
- Last time the department or process audited

❖ **Mandated Audits:**

These audits are required by policy, rules and regulations. One example is the annual audit of VISA card use.

❖ **Requests:**

Lottery management or the Audit Committee may request an audit for various reasons, such as to review a new process or system, to investigation suspicions of fraud, and to review policies and procedures. Time is set aside in our audit plan for unanticipated audits and consulting engagements.

7. What is Internal Audit looking for?

One of the areas we look for is compliance with Lottery policies and sound internal controls. Lottery's policies are designed to help ensure that we comply with applicable laws and regulations and operate efficiently. However, not all internal controls can be codified in policy. If we find a control weakness, we make recommendations to implement a control even if it may not be specifically required by policy. We also identify opportunities to help management to improve operational efficiency by reducing controls in an area with lower risk.

8. What can I expect during an audit?

- a. During the audit entrance conference, we will meet with the AD and key personnel of the area to discuss and agree on the timing, objectives, and scope of the audit.
- b. Next, we will contact the key personnel for interviews and a walkthrough of the work area to allow us to gain an understanding of the processes. We will also request department objectives and goals as well as operating policies and procedures for review.
- c. Once the processes have been defined and documented, we will perform tests to ensure that controls are in place and operating effectively, and processes function as management intends it to.
- d. If we identify areas for improvement (e.g., control weaknesses or over-controlled processes), we will communicate the observations and recommendations to the key personnel for discussion.
- e. We will prepare a draft report with corrective action plans (with detailed observations and recommendations) which are submitted to the AD and key personnel for review.

An exit conference is held to discuss the draft report and corrective action plan with the AD and key personnel. We will ask management to comment on the factual accuracy of the report and corrective action plan. As all the findings will have been

discussed before the report was produced, there should not be any surprises in what it says.

- f. The responsible party responds to our corrective action plan in writing 2 weeks from the exit conference to indicate:
 - Whether they agree or disagree with the observation
 - The corrective action to be taken to address the observation
 - When the corrective action will be implemented
- g. We will distribute the report and corrective action plan to the Executive Team for review to consider the prioritization of corrective action planned with existing projects
- h. Finally, we distribute the report and corrective action plan to the Director, with copies provided to the Audit Committee members, the AD and key personnel of the area

9. What can I do to make the audit process go smoothly?

Communication and cooperation with the auditor are the key elements for a successful audit. Here are some examples of what you can do to enhance the audit process and the resulting product:

- Understand the audit purpose to provide relevant information upon request
- Direct the auditor to the right person if you are not the best source of requested information
- Supply requested information on a timely basis
- Share any internal control concerns you have with the auditor
- Ask questions if you don't understand why certain activities have been included, or excluded
- Review the preliminary test results and begin thinking about possible corrective actions
- Review the draft report and make suggestions for any changes or enhancements before, or during, the exit conference

Each auditor that requests information should be able to explain the audit purpose and objectives so you can understand the reasons for the requests and questions in order to provide accurate answers. If you have any questions about the information being requested, you can always discuss those concerns with the auditor.

10. Does Internal Audit only look for negative things?

No! Internal Audit wants to help your department be successful to achieve desirable outcomes. We are looking for ways to help you to do your job more efficiently.

We develop recommendations if we identify weakness during our audit to help you to correct the issue. We also document and communicate test results in areas with NO

exceptions to provide management reasonable assurance that the processes function as management intends them to.

11. Must I always implement the audit recommendations?

No! While the adoption of Internal Audit's recommendations is encouraged, management can always choose and develop different procedures to correct concerns identified during the audits.

12. Can a department request an audit? What are the potential benefits of an internal audit?

Yes! Although our ability to perform the audit might be affected by our staffing levels, we consider requests for audit work. An audit is very beneficial to assess risks within any area of the Lottery. For example:

- If you have recently assumed new or additional supervisory responsibilities, an audit can help you to assess whether internal controls in your area are adequate
- A periodic checkup to review your department's activities can give you assurance that procedures comply with Lottery policies
- An audit can assess the effectiveness of controls in your area when new systems or procedures are implemented
- Auditors can brainstorm with you to come up with ideas to eliminate redundant or burdensome controls
- An audit can detect problems early before they come to the attention of others (e.g. external auditors)

Anyone within the Lottery can request an audit, especially if you suspect fraudulent or unethical activity is occurring in your areas. All requests will be evaluated.

We are also available to do presentation and training for your department upon requests.

13. How much time will Internal Audit require to complete an audit?

The time required can vary with every project. Factors that determine the time required can include:

- The amount of resources your department can supply to us during our audit
- The amount of resources we are able to supply a project
- The nature of the audit
- The complexity of the processes

Generally, audits can last from one to five months. The auditor assigned to your area will give you a reasonable estimate of the time to complete the audit.

14. What if I don't have time to deal with auditors? What if it's a bad time for an audit (e.g., short-staffed, budget season, system implementation?)

Internal Audit makes every effort to minimize the disruption of your everyday activities and cooperate with you to ensure a smooth process.

During the audit entrance conference, we will discuss the audit schedule and try to accommodate time constraints that you may have. Much of our work is done behind the scenes such as audit planning, testing, and report writing. Many people have the misconception that we will spend lots of time with you and take time away from your other obligations. We may need to meet key personnel on the audit two or three times for maybe an hour at a time over the audit period. We may spend equal amounts of time, and perhaps less, with others in the department. We will not monopolize anyone's time in the department.

15. What are some examples of common audit findings?

Examples of common audit findings include:

- Inadequate separation of duties, i.e. one employee responsible for all aspects of specific types of activities
- Administrative policies, procedures and practices not documented
- Expenditures or disbursements not properly authorized
- Administrative staff not cross-trained to provide coverage during extended absences
- Access to departmental computer resources not properly controlled
- Mission, goals and objectives are not established and documented

16. What are internal controls? Why should I be concerned?

Internal controls safeguard Lottery assets and employees. The integrity and security of Lottery operations depends upon properly functioning controls. Internal controls encompass Lottery's entire set of methods and procedures that are used in the day-to-day activities. These methods and procedures assist the Lottery to:

- Safeguard assets from waste, loss, and misuse
- Promote accuracy and reliability in the accounting records
- Encourage and measure compliance with applicable laws and regulations
- Evaluate the efficiency of operations

Some examples of internal controls include:

- Review expense reports for appropriateness and compliance with policies
- Separate the duties of preparing payroll and distributing pay checks
- Grant and approve system access based on job responsibilities
- Separate the duties of handling cash and reconciling deposits

17. Who is responsible for internal controls?

Everyone is responsible for internal controls in varying degrees:

- Management: Have ultimate responsibilities and ownership over internal controls
- Frontline Personnel: Maintain good internal controls
- Internal Audit: Evaluate the effectiveness of internal controls
- Audit Committee: Provide guideline and oversee internal controls

18. Is there a perfect internal control system?

No! There is no such thing as a perfect internal control system. There are inherent limitations listed below that typically can not be controlled:

- Misunderstanding of instructions
- Mistakes of judgments
- Personal carelessness
- Management override
- Collusion among individuals
- Staff size limitations

As a result of inherent limitations, the internal control structure can provide only "reasonable" NOT "absolute" assurance that goals and objectives will be accomplished.

19. Why do internal controls fail?

Internal controls may fail resulting from:

- Lack of integrity
- Weak control environment
- Inconsistent objectives
- Poor communication
- Inability to understand and adopt to changing conditions

20. Why does each department need individual policies and procedures in addition to the Lottery's Internal Operating Policies?

Each department should maintain its own departmental policy and procedures manual to ensure that:

- Continuity and consistency of operations occur
- Efficiency in operations occurs
- Documentation of "what-to-do" or "what-should-be-done" exists
- Documentation of "how-to-do" exists
- Documentation of the handling of non-routine and/or infrequent processes exists
- Efficiency and effectiveness of training for new employees occur

On the other hand, the Lottery's Internal Operating Policies address agency-wide issues, and does not cover department specific procedures, processes and/or services.

21. What should I do if I suspect fraud?

If you suspect or have knowledge of fraud or unethical activities, you could make a confidential report through:

- Lottery Silent Whistle Program: <http://oregonlottery.silentwhistle.com>
- Government Waste, Fraud or Abuse - Audit Division: 1-800-336-8218

And, of course, you can also bring any such concerns to Valerie Wicklund, Chief Internal Auditor.