



Oregon Department of Forestry

Oregon Department of Forestry's Quality Assurance Program and Audit Committee DRAFT Charter

I. Requirement

In compliance with OAR 125-700-0020(1), and with the intention to improve risk management, internal control, and operations within the agency, the State Forester establishes, fully supports, and will maintain a full-time internal auditing function known within the Department as the Quality Assurance Program (QAP). If a full-time internal audit function is not maintained, the State Forester will submit in writing to the Director of the Department of Administrative Services (DAS) an application for an exception process that complies with the applicable rule.

In addition, in compliance with OAR 125-700-0035 (1), and with the intention to improve risk management, internal control, and operations within the agency, the State Forester establishes, fully supports, and will maintain a Department Audit Committee whether there is a full time internal audit function or an approved exception.

In accordance with OAR 125-700-0020(3), this charter is only in force when it is approved by the Oregon Board of Forestry (the Board). The Department Audit Committee and senior management should also understand and accept the charter and contribute to its refinement by providing recommendations to members of the Audit Committee and QAP to propose changes for Board of Forestry (BoF) approval.

This charter is to define the purpose, authority, and responsibilities of the internal auditing function in the Department's QAP and to define the structure, membership, and role of the Department's Audit Committee.

II. Quality Assurance Program / Internal Audit Function

A. PURPOSE

The purpose of the QAP is to add value to the Department and increase the assurance that the Department will achieve its mission/objectives by improving governance, management, internal control and operations through a systematic and disciplined approach of providing independent and objective reviews.

The mission of the Department is to serve the people of Oregon by protecting, managing, and promoting stewardship of Oregon's forests to enhance environmental, economic, and community sustainability.

B. STANDARDS AND GUIDANCE

The QAP will abide by the Attribute, Performance, and Implementation Standards and the Code of Conduct in the *International Professional Practices Framework* issued by the Institute of Internal Auditors. In addition, the QAP Director and staff will follow the requirements stated in OAR 125-700. When additional standards are necessary for a specific engagement, the appropriate standards will be identified prior to the fieldwork of the engagement.

If full compliance with the standards is not achieved and the non-compliance impacts the overall scope or operation of the internal audit function, the QAP Director will disclose the nature of the variance to the Director of DAS.

The uniform criteria for reviewing agency internal control will be based upon the Committee of Sponsoring Organizations (COSO) *Internal Control Framework*. As program needs require, additional criteria will be identified and used.

C. AUTHORITY

The Board and the State Forester grant the QAP Director and QAP staff unrestricted access to all records, files, personnel (including executive management and the Board), systems, assets, and activities within the Department as needed to perform job responsibilities and assignments.

D. ORGANIZATION, INDEPENDENCE, AND OBJECTIVITY

The QAP Director reports administratively to the State Forester and functionally to the Department's Audit Committee.

QAP staff shall attest that they are independent, objective, and have no conflict of interest at the beginning of each engagement and have Audit Committee members state that they do not know of or perceive any impairments to QAP staff independence or objectivity at the beginning of each engagement. QAP staff and members of the audit committee will similarly state at the closing of each engagement that no problems of independence or objectivity occurred during the course of the engagement.

The QAP Director and staff should be free of any responsibilities that would impair their ability to make independent reviews of all aspects of the agency's operations. This does not preclude the QAP's proactive involvement with management in planning, process committees, or other consulting assignments that have been approved by the Audit Committee. QAP input is considered as advisory, and management must accept responsibility for implementing any suggestions.

The QAP Director should be free from any undue influence in performing engagements, the Annual Agency-wide Risk Assessment, and in the development of the Annual Audit Plan. In addition, the QAP Director and staff should be free to obtain advice and information from sources inside and outside the agency, including but not limited to other internal auditors, DAS, the Oregon Audits Division, the Audit Committee, and all BoF members.

Any scope limitation placed upon internal auditing staff that precludes them from meeting objectives and/or executing plans should be communicated in writing to the audit committee and, when applicable, to agency management with the potential effect. The QAP Director should periodically inform the committee regarding scope limitations that were previously communicated and accepted.

The hiring and dismissal of the QAP Director shall only be allowed with the unanimous consent of the Audit Committee and based upon grounds other than the independent and objective operation, review, and reporting as an internal auditing function.

E. RESPONSIBILITIES

The key responsibilities of the QAP include:

- Developing and Updating Guidance for the Quality Assurance Program,
- Performing an Annual Agency-Wide Risk Assessment,
- Developing and Updating an Annual Audit Plan,
- Conducting Assurance and Consulting Engagements,
- Reporting Efforts on and Findings from Assurance and Consulting Engagements,
- Conducting Follow Up Reports and Reviews of All Previous Audit Engagements and Audit Recommendations, and
- Providing Annual Reports to DAS, ODF Executive Management, and the Board.

1. Maintenance of Charter and Guidance

The QAP Director is responsible for the development, review, and modification of audit policies, procedures, and standards for the conduct of the internal audit function. The QAP director is responsible to periodically assess whether the purpose, authority, and responsibility in this charter are sufficient for the QAP to achieve its purpose. Updates should also be considered based upon changes to laws and standards that may change how the QAP is to perform their responsibilities. The QAP Director will provide the recommended changes to the Audit Committee for approval. The results of this periodic assessment should be communicated to the audit committee and, when applicable, to senior management and the Board.

2. Annual Agency-Wide Risk Assessment

QAP staff shall perform an Annual Agency-Wide Risk Assessment using methodology approved by the Audit Committee and executive management, and the results should be used to prepare an annual audit plan. Included in the Annual Agency-Wide Risk Assessment should be an explanation of the sufficiency of resources for the QAP program to cover all of the high risk areas.

3. Annual Audit Plan

The Annual Audit Plan determines the engagements and priorities of the QAP. The Annual Audit Plan should be focused upon risks and exposures to the Department. It must also consider requests from management and remain flexible to address any unforeseen concerns, needs or risks.

The Annual Audit Plan should be developed by the QAP Director and then approved by a majority of the Audit Committee. Any updates or changes to the Annual Audit Plan need to be similarly approved. Copies of the annual audit plan and any updates shall be sent to DAS for review by the Statewide Audit Advisory Committee (SAAC).

4. Assurance Engagements

Assurance Engagements are intended to ensure the controls currently in place provide a reasonable assurance that objectives will be attained and assets safeguarded. The scope of the QAP assurance engagements encompasses the adequacy and effectiveness of the Department's system of risk management, internal control, and governance processes at all levels of the Department.

Assurance Services that will be provided by the QAP will assess and test controls to ensure controls are applied as expected by management and are providing reasonable assurance that risks are avoided and objectives will be attained. These assurance services will include reviews and tests of controls in place to reasonably assure:

- Accurate, Complete, and Timely Financial Reporting,
- Compliance with Relevant Guidance and Policies,
- Program Objectives will be Achieved,
- Economy and Efficiency of operations, and
- Information Security Objectives and Standards are met.

5. Consulting Engagements

The QAP will also provide Consulting Services that are to assist ODF personnel at all levels of the Department improve the effectiveness and/or efficiency of the discharge of their responsibilities. These services can be formal reviews with specified information, process proposals to be delivered or informal processes of participating on committees and training.

All consulting engagements will be requested in writing by management with a clear statement of the scope of activities to be undertaken, the timeframe in which the engagement will be performed or completed, and the objective or purpose of the Quality Assurance Program staff in performing the engagement. These requests will be evaluated by the Quality Assurance Program Director for any needed refinement and will be passed to executive management for input. The request will then be assessed by the Audit Committee to determine if they will be included into the Annual Audit Plan.

6. Management Letters

Management Letters will be used to communicate concerns that arise from observations external to the scope of scheduled engagements. These letters are intended to communicate

concerns or issues that were observed that would not require a full engagement and fieldwork to ensure the conclusions stated in the report.

7. Reporting and Follow Up

The QAP Director will issue written reports at the conclusion of each engagement and issue a final copy to each Audit Committee member, the State Forester, and all relevant managers of the engagement. A signed copy will be issued to the Chair of the Department's Audit Committee. The report will be issued in a timely manner once fieldwork is completed. Report summaries will be sent to DAS within 30 days of being issued as well as included into the Consent Agenda Items of the next occurring BoF meeting.

Draft reports will be issued to relevant managers for a review period of two weeks for review and comments. Once this period is over, the QAP Director will make any needed edits and then release a second draft to the relevant managers for a two-week period to develop a response to the engagement report. In cases where recommendations are issued in the report, the relevant manager's response should include:

- whether they agree or disagree with the recommendation,
- what corrective action will be taken,
- who is responsible to take the corrective action, and
- when the corrective action will be completed.

If a response is not completed at the end of the two-week period, the QAP Director may release the report without including the management response.

Annual Audit Plans, Annual Reports, and summaries of all reports will be sent to DAS within 30 days of being released.

Each year the QAP Director will report to the Audit Committee on the status of previously issued external and internal audit recommendations. A report will be kept of all audit recommendations and their status and will be reviewed with managers each year during the Annual Agency-Wide Risk Assessment. The QAP Director will annually report to the Audit Committee on the status and results of corrective action taken to address audit findings. After reviewing the follow-up activities, the Audit Committee will assess the changes made, and determine whether or not the corrective action adequately resolves the audit recommendations. In addition, the QAP Director will report on the sufficiency of resources to address all high-risk areas.

If full compliance with the standards is not achieved and the noncompliance impacts the overall scope or operation of the internal audit function, the QAP Director will disclose the nature of the variance to the Director of DAS.

Any scope limitation placed upon internal auditing staff that precludes them from meeting objectives and/or executing plans should be communicated in writing to the audit committee and, if applicable, to agency management along with the potential effect. The QAP Director should periodically inform the committee regarding scope limitations that were previously communicated and accepted.

Copies of the annual audit plan and any updates shall be sent to DAS for review by the Statewide Audit Advisory Committee (SAAC).

III. Audit Committee

A. PURPOSE

The purpose of the Audit Committee is to provide oversight of all auditing and internal control issues for the Department, ensure the continuing independence and objectivity of the internal audit function, and assist Department management in carrying out its oversight responsibilities related to:

- Financial and other reporting practices,
- Internal Control and prevention of fraud within the Department,
- Compliance with laws, regulations, and ethics, and
- Economy and efficiency of operations.

B. STRUCTURE AND ORGANIZATION

The Department's Audit Committee will be made up of five individuals – three members will be from the BoF or external to the Department and two members will be from the Department. As stated in OAR 125-700-0035 (2), at least one member of the Audit Committee will be a member of the Board. All Department employees that are members of the Audit Committee cannot be directly responsible for the internal audit function.

Nominees for the Audit Committee will be developed by the Board and/or the Department management and forwarded by the State Forester to the Board for selection/approval. If sufficient individuals cannot be found outside of the agency the positions will be left vacant until they can be filled.

At least one of the Audit Committee members should have sufficient (state system) financial experience to provide guidance and assist other audit committee members in understanding financial issues. In addition, the members of the Department's Audit Committee should collectively possess a sufficient knowledge of the Department's mission, objectives, operations, systems, and activities to sufficiently assess risk and issues identified from reviews within the agency.

Audit committee members will serve a four-year term. Members may be replaced at the discretion of the Board. Committee members will nominate or volunteer themselves to be elected by the Audit Committee members as the chair of the Audit Committee. The member with the most votes among Audit Committee members will be chosen as the chair.

C. RESPONSIBILITIES

The key responsibilities of the Department's Audit Committee are:

- Ensure the QAP Director Reports to a Level Within the Department that Ensures Independence and Action on Recommendations,
- Ensure the QAP Charter is Adequate to Meet the Needs of the Department and Requirements for Internal Auditing,
- Review and Approve the Annual Audit Plan,
- Review the Actions Taken on All Audit Recommendations and Ensure Actions Are Sufficient to Mitigate Risks,
- Evaluate the QAP for sufficiency of resources, scope limitations, and performance, and
- Assess Department Processes related to:
 - Financial and other reporting practices,
 - Internal Control and prevention of fraud within the Department, (consider the procedures for the review of management's reimbursements, public monies, property, ethical guidance, whistleblower reporting, etc.)
 - Compliance with laws, regulations, and ethics, and
 - Economy and efficiency of operations.

The Department Audit Committee will meet quarterly to perform most of these tasks and, when needed, ad hoc meetings may be called to address additional issues and/or reports. The quarterly meetings will be focused upon the Department Audit Committee discussing key issues related to Assessing Key Department Processes based upon an annual agenda of topics to be covered. Requests for members of management, the Oregon Audits Division (OAD), or other agencies to attend meetings should be done through the Chair of the Audit Committee.

The Annual Audit Plan submitted by the QAP Director will approved by the Audit Committee by a majority vote. Requests from management will be considered as received by the QAP Director and will be discussed with the Audit Committee for their approval to make the requested engagement part of the Annual Audit Plan and to decide which engagements in the Annual Audit Plan will be postponed.

The Audit Committee will also be responsible for assessing the actions taken by Department management in response to all audit recommendations and addressing the sufficiency of the actions and changes made in response to the recommendations.

The BoF, Audit Committee, QAP Director, and Executive management will provide input to determine the level and type of oversight to be provided by the Audit Committee on additional responsibilities.

D. Independence and Objectivity

Audit Committee members will disclose any actual conflicts of interest or appearances of a conflict of interest to the Board and will recuse themselves of any discussions on matters that may appear to present a conflict of interest. Audit Committee members shall attest annually that they will remain independent and objective and not disclose any Audit Committee discussion or information for the benefit of any employee or person that has a regulatory, administrative, or financial interest with the agency.

The Audit Committee will also ensure that the QAP Director reports to a level within the agency that ensures action can be taken on recommendations issued in engagement reports.

The appointment, replacement, reassignment, or dismissal of the QAP Director shall only be allowed with the unanimous consent of the Audit Committee and based upon grounds other than the independent and objective operation, review, and reporting as an internal auditing function.

IV. Glossary

Terms are from the Glossary of *the International Standards for the Professional Practice of Internal Auditing*.

Add Value - Value is provided by improving opportunities to achieve organizational objectives, identifying operational improvement, and/or reducing risk exposure through both assurance and consulting services.

Adequate Control - Present if management has planned and organized (designed) in a manner that provides reasonable assurance that the organization's risks have been managed effectively and that the organization's goals and objectives will be achieved efficiently and economically.

Assurance Services - An objective examination of evidence for the purpose of providing an independent assessment on risk management, control, or governance processes for the organization. Examples may include financial, performance, compliance, system security, and due diligence engagements.

Board - A board is an organization's governing body, such as a board of directors, supervisory board, head of an agency or legislative body, board of governors or trustees of a non profit organization, or any other designated body of the organization, including the audit committee, to whom the chief audit executive may functionally report.

Charter - The charter of the internal audit activity is a formal written document that defines the activity's purpose, authority, and responsibility. The charter should (a) establish the internal audit activity's position within the organization; (b) authorize access to records, personnel, and physical properties relevant to the performance of engagements; and (c) define the scope of internal audit activities.

Chief Audit Executive - Top position within the organization responsible for internal audit activities. Normally, this would be the internal audit director. In the case where internal audit activities are obtained from outside service providers, the chief audit executive is the person responsible for overseeing the service contract and the overall quality assurance of these activities, reporting to senior management and the board regarding internal audit activities, and follow-up of engagement results. The term also includes such titles as general auditor, chief internal auditor, and inspector general.

Code of Ethics - The Code of Ethics of The Institute of Internal Auditors (IIA) are Principles relevant to the profession and practice of internal auditing, and Rules of Conduct that describe behavior expected of internal auditors. The Code of Ethics applies to both parties and entities that

provide internal audit services. The purpose of the Code of Ethics is to promote an ethical culture in the global profession of internal auditing.

Compliance - Conformity and adherence to policies, plans, procedures, laws, regulations, contracts, or other requirements.

Conflict of Interest - Any relationship that is or appears to be not in the best interest of the organization. A conflict of interest would prejudice an individual's ability to perform his or her duties and responsibilities objectively.

Consulting Services - Advisory and related client service activities, the nature and scope of which are agreed with the client and which are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training.

Control - Any action taken by management, the board, and other parties **to manage** risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organizes, and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

Control Environment - The attitude and actions of the board and management regarding the significance of control within the organization. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements:

- Integrity and ethical values.
- Management's philosophy and operating style.
- Organizational structure.
- Assignment of authority and responsibility.
- Human resource policies and practices.
- Competence of personnel.

Control Processes - The policies, procedures, and activities that are part of a control framework, designed to ensure that risks are contained within the risk tolerances established by the risk management process.

Engagement - A specific internal audit assignment, task, or review activity, such as an internal audit, Control Self-Assessment review, fraud examination, or consultancy. An engagement may include multiple tasks or activities designed to accomplish a specific set of related objectives.

Engagement Objectives - Broad statements developed by internal auditors that define intended engagement accomplishments.

Engagement Work Program - A document that lists the procedures to be followed during an engagement, designed to achieve the engagement plan.

External Service Provider - A person or firm, outside of the organization, who has special knowledge, skill, and experience in a particular discipline.

Fraud - Any illegal acts characterized by deceit, concealment or violation of trust. These acts are not dependent upon the application of threat of violence or of physical force. Frauds are perpetrated by parties and organizations to obtain money, property or services; to avoid payment or loss of services; or to secure personal or business advantage.

Governance - The combination of processes and structures implemented by the board in order to inform, direct, manage and monitor the activities of the organization toward the achievement of its objectives.

Impairments - Impairments to individual objectivity and organizational independence may include personal conflicts of interest, scope limitations, restrictions on access to records, personnel, and properties, and resource limitations (funding).

Independence - The freedom from conditions that threaten objectivity or the appearance of objectivity. Such threats to objectivity must be managed at the individual auditor, engagement, functional and organizational levels.

Internal Audit Activity - A department, division, team of consultants, or other practitioner(s) that provides independent, objective assurance and consulting services designed to add value and improve an organization's operations. The internal audit activity helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Objectivity - An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they have an honest belief in their work product and that no significant quality compromises are made. Objectivity requires internal auditors not to subordinate their judgment on audit matters to that of others.

Residual Risks - The risk remaining after management takes action to reduce the impact and likelihood of an adverse event, including control activities in responding to a risk.

Risk - The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.

Risk Management - A process to identify, assess, manage, and control potential events or situations, to provide reasonable assurance regarding the achievement of the organization's objectives.

Should - The use of the word "should" in the Standards represents a mandatory obligation.

Standard - A professional pronouncement promulgated by the Internal Auditing Standards Board that delineates the requirements for performing a broad range of internal audit activities, and for evaluating internal audit performance.