

# Oregon Department of Education

## Annual Report on Internal Audit Activities

**Covering Fiscal Year: 2016**

**Printed on: 9/29/2016**

**Reported by the Internal Audit Activity of Oregon Department of Education**

**Latham Stack, Chief Audit Executive**

### **Agency Overview**

**125-700-0020**

Oregon Administrative Rule (OAR) 125-700-0125 requires an internal audit function for agencies who meet one of the following criteria: biennial expenditures exceed \$100,000,000; number of Full Time Equivalent (FTE) employees exceeds 400; or dollar value of cash items processed annually exceeds \$10,000,000.

**Mission:** The Oregon Department of Education fosters excellence for every learner through innovation, collaboration, leadership, and service to our education partners.

**Biennial Expenditures:** \$9.8 billion

**Number of FTE:** 521

### **Internal Audit Governance Attributes**

Data Classification: Level 2 - Limited

**Purpose**

The mission of the internal audit function is to help the State Board of Education, Oregon Department of Education, and the Youth Development and Early Learning Divisions accomplish their objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. The internal audit function fulfills this purpose by engaging in independent, objective audit activities that comply with generally accepted internal auditing standards. Work done in accordance with these standards can provide information that facilitates improved government operations, better decision-making and oversight, and greater transparency and accountability.

The ethical principles that guide the work of the internal audit function are those of the Institute of Internal Auditors, and include the public interest, integrity, objectivity, professional behavior, and proper use of government information, resources, and position.

**Audit Committee**

The Oregon Department of Education Audit Committee meets quarterly. The Audit Committee has been in existence since 2006 and its charter was most recently approved at its meeting on 7/8/2013. In FY 2016 the following members served on the committee:

<u>Member Name</u>	<u>Title</u>	<u>Member Since</u>	<u>Rank</u>
David Terry	Director of Internal Audit, Portland State University	2012	2
Jerome Colonna	State Board of Education	2015	2
John Radford	State Controller/DAS (Retired)	2008	2
Ozzie Rose	Education Advocate	2009	2
Pamela Stroebel Powers	Contributing Faculty Member, Willamette University	2012	2
Michelle Hooper	Chief of Staff/ODE	2015	3
Rick Crager	Assistant Superintendent/ODE	2015	3
Stephen March	County Auditor/Multnomah County	2007	5

Rank 1 = Chair-Internal Member, 2 = External Member(s), 3 = Internal Member(s), 4 = Facilitator/Staff/Admin Support/Ex-Officio, 5 = Chair-External Member

NOTE: The ODE Chief Audit Executive attends Audit Committee meetings as a guest of the Committee.

A risk assessment was completed in June and the Audit Committee approved the audit plan on 7/12/2016. The Annual Risk Assessment and Internal Audit Coverage Report is included in this report as Attachment A.

**Auditing Standards**

Oregon Department of Education Internal Audit Section follows the International Standards for the Professional Practice of Internal Auditing (Red Book, issued by the Institute of Internal Auditors); and Government Auditing Standards (Yellow Book, issued by the Government Accountability Office).

**Summary of Work Performed**

125-700-0040

<u>Report Name</u>	<u>Date Issued</u>	<u>Risk</u>
SPOTS card audit	05/06/2016	Low
Regulation of State-funded grants	05/06/2016	Medium

Evaluation of the Child Care Legal and Compliance Unit	01/14/2016	High
Audit of Child Nutrition Program provider	12/18/2015	Medium
Investigation of complaint to the State Fraud and Ethics Hotline	03/03/2016	Low
Investigation of complaint to the State Fraud and Ethics Hotline	05/24/2016	Low

For the current fiscal year, 75% of the annual audit plan was completed. The percentage of audits completed originating from the Risk Assessment topics was 17%. The percentage of mandatory audits completed was 17%.

**Value Added Activities**

- Miscellaneous internal control related consultations to ODE management and staff.
- Office of Information Technologies, analysis of process capability maturity under the COBIT5 framework.
- Participation on the programming subcommittee of the local chapter of the Institute of Internal Auditors
- Participation on the organizing committee for the Spring 2016 Intergovernmental Audit Forum conference. Also presented at this conference, on assessing risk from high-consequence, low-occurrence events.

## Quality Assurance Reviews

**125-700-0055**

**External Review**

In accordance with the Institute of Internal Auditors' International Professional Practices Framework and OAR 125-700-0055 each agency with an established internal audit function must receive an external assessment every five years.

An external quality assurance review was not performed during fiscal year 2016 due to previous vacancy in the Chief Audit Executive position.

## Internal Audit Independence

**125-700-0030, 0040**

**Reporting Structure**

The Chief Audit Executive reports to the ODE Chief of Staff. The Chief Audit Executive attends other leadership meetings. The Chief Audit Executive reports functionally to the Audit Committee and administratively to the Chief of Staff. The Audit Committee is actively engaged in governing ODE's internal audit program.

## Administrative Information

**Fiscal Year Staffing Information**

<b><u>Working Title</u></b>	<b><u>Name</u></b>
Chief Audit Executive	Latham Stack

**Recruiting During FY**

On June 30th, 0 positions were vacant. During the course of the fiscal year we conducted 0 recruitments resulting in 0 filled positions.

## Annual Risk Assessment and Planned Audit Coverage Report

## **PURPOSE**

To present a summary of Internal Audit's risk assessment process, results, and planned auditing coverage for the Oregon Department of Education.

## **Annual/Recurring Audits**

Oregon Department of Education Internal Audit Section is required to audit/review/report on an annual basis the following:

### **Mandated Audits**

1 SPOTS card audit

## **RISK ASSESSMENT**

### **Frequency Performed**

Triennially

## **Process & Methodology**

ODE's 2016 risk assessment was performed between December 12, 2015, and June 24, 2016, although assessments of activities other than those of the Youth Development (YDD) and Early Learning (ELD) Divisions were completed by mid-April.

I followed the model developed in previous ODE risk assessments. This model defined between two (2) and twelve (12) individual risks associated with each of the major objectives and programs delineated for ODE (including YDD and ELD). Each individual risk was scored on seven factors, resulting in a total "risk score" for each risk. The seven factors are: Complexity, interdependence, volatility, sensitivity, visibility, level-of-concern, and the objectivity of the level-of-concern. Five of the seven factors are scored using a qualitative versus numeric scale (e.g. Low, Moderate, High, versus 1, 2, and 3). The model translates qualitative factors to numeric values which are used in a simple formula to derive a final score for each risk. A formula was used to compile scores from each factor into a single, overall risk score for each program. Although the scoring is subjective and arbitrary, value derives from consistent application across programs, which allows for a relative ranking that can help prioritize Agency goals and resources.

For the 2016 assessment, managers and senior staff rated each of their programs risks for current levels of concern and the level of objectivity in these levels-of-concern rating. The other five factors were not re-scored from the previous assessment, because these relate to the core characteristics of each program and risk, which generally would not be expected to change in the short-term. In certain instances, managers/staff made minor changes to the list of risks for each program.

The risk assessment model used by ODE is well-suited to its programs, because this model provides for programmatic factors, risks, and consequences, rather than merely financial risks and consequences. I performed several diagnostic analyses to assess the validity of the risk assessment scales and numerical values assigned to the qualitative scales. Results confirmed the validity of the model for informing the audit plan.

## **Audit Universe**

Office: Risk-Area

Student Services: Student Sexual Health

Student Services: Student Health

Government Relations and Legal Affairs: Legislative Relations

Instruction & Standards: Educational Service Districts Accountability

ODE-wide: Closing the Achievement Gap

Early Learning Division: Employment-Related Day Care

Instruction & Standards: Charter Schools

Early Learning Division: Alcohol & Drug Day Care and Parental Support  
Office of Information Technology: Information Security/Records Management  
Early Learning Division: Child Care  
Student Services: Youth Corrections Educational Program  
Student Services: Early Intervention & Early Childhood Special Education  
ODE-wide: Change Management (e.g., projects, legislation, initiatives)  
Human Resources: Personnel Management (including labor relations)  
Office of Information Technology: Website Management  
Instruction & Standards: Accelerated College Credit  
Instruction & Standards: Civil Rights  
ODE-wide: Ethics  
Instruction & Standards: Indian Education  
Instruction & Standards: Alternative Education Programs  
Student Services: Long Term Care & Treatment  
Instruction & Standards: Supplemental Education Services Administration  
Student Services: Juvenile Detention Educational Program  
Student Services: Special Education – Compliance with Federal Regulations  
Office of Financial Administration: Budgeting  
Office of Financial Administration: Payment Administration  
Instruction & Standards: Academic Content Standards  
Early Learning Division: HFO  
Student Services: Hospital  
Instruction & Standards: Oregon PreKindergarten  
Oregon School for the Deaf: Oregon School for the Deaf  
Student Services: Accountability Systems  
Human Resources: Communications  
Student Services: ESEA Waiver  
Instruction & Standards: Every Student Succeeds Act (ESSA)  
GLAM: State Board Operations  
Student Services: Teacher Professional Development  
Early Learning Division: 211 Program  
Student Services: Performance Measures  
Student Services: Legal Issue Coordination  
Instruction & Standards: Teacher Evaluation System  
Assessment & Accountability: Academic Assessments  
Instruction & Standards: Oregon Virtual School District  
Policy Research: Oregon Quality Education Model  
Office of Financial Administration: Procurement/SPOTS  
Office of Financial Administration: Pupil Transportation – Driver Training, Vehicle Safety/Inspection  
Student Services: No Child Left Behind Title 1A  
Youth Development Division: YDD-Databases  
Government Relations and Legal Affairs: Relationship Management  
Instruction & Standards: GED Option Program  
Assessment & Accountability: Reporting  
Early Learning Division: Early Learning Hubs  
Instruction & Standards: School Improvement  
Instruction & Standards: English Language Learners  
Student Services: Growth Model  
Instruction & Standards: Textbook Selection  
Office of Financial Administration: Common School Fund  
Student Services: Dispute Resolution

Student Services: Child Nutrition Programs  
 Early Learning Division: Teen Parent Day Care and Support  
 Student Services: Regional Programs  
 Student Services: Reporting (e.g., Homeless Students, Safe & Drug-Free Schools)  
 Office of Financial Administration: Travel  
 Early Learning Division: MSFW  
 Office of Financial Administration: Mail Services  
 Instruction & Standards: Migrant Education  
 Youth Development Division: Investments  
 ODE-wide: Grant Regulatory Compliance and Monitoring  
 Student Services: Technical Assistance  
 Human Resources: Timekeeping/Payroll  
 Office of Financial Administration: Accounting  
 Student Services: Background Security Checks  
 ODE-wide: Grant Monitoring  
 Early Learning Division: ICCP  
 Student Services: Rulemaking  
 Human Resources: Training  
 Office of Financial Administration: Cash Management  
 Policy Research: Policy Research & Analysis  
 Early Learning Division: Relief Nurses  
 Office of Financial Administration: Financial Analysis  
 Office of Financial Administration: State School Fund  
 Student Services: Blind and Visually Impaired Fund  
 Youth Development Division: Policy-Setting  
 Youth Development Division: State Advisory Group  
 Office of Financial Administration: Debt Service  
 Youth Development Division: Continuity-&-Alignment

### **RA/Audit Plan - Hours to Complete**

The near-term audit plan for fiscal year 2017 will see the following program audits selected from the risk assessment:

- Student Services: combined program audit of the Long-Term Care & Treatment Program, Youth Corrections Education Program, and a to-be-decided program in Special Education. Estimated time is 600-750 hours;
  - Early Learning Division: combined program audits of the Employer-Related Daycare, Drug & Alcohol parent-support and daycare, and a follow-up review of the Legal and Compliance Unit programs. Estimated time is 600-750 hours.
- These are near-term projects that will be initiated as the ODE Executive team and the Audit Committee work with the Internal Auditor to develop a three-year audit plan based on the risk assessment. Additional fy2017 audits from the Plan will be performed as time permits.

### **Audit Plan**

*Audit topics are selected based off of items identified during the risk assessment practices, required/requested items, work in progress from the previous fiscal year as well as available internal audit resources and competencies.*

In addition to the topics listed below, time is allocated on the annual audit plan for management requests, to be approved by the Department's Internal Audit Committee Chair and reviewed with the Committee as topics arise.

**Audit Topic**  
ad hoc projects up to 25% of available hours.  
Support for Child Nutrition Program sponsor site reviews

**Recurring/Annual**  
Yes  
No

**Auditable Units**

Audit units not specifically identified above as on the schedule for fy2017 will not be audited during the year (see the above section titled Audit Universe for the full list of audit units). However, if time is available on the schedule additional projects will be initiated based on the three-year audit plan that is currently in development.

**Staff Training**

The Chief Audit Executive has obtained sufficient training during calendar year 2016 to receive the Continuing Education Credits necessary to maintain professional certification.