



OREGON  
STATE  
TREASURY

OREGON STATE TREASURER ELIZABETH STEINER

# Internal Controls Overview

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George Naughton  
Deputy Treasurer

# Risks Can Be Positive Or Negative



# Treasury Faces A Variety Of Risks



# We Start By Assessing Risk

		Inherent Risk Ranking				
Likelihood	Imminent 5	Low	Moderate	High	Critical	Critical
	Frequent 4	Low	Moderate	High	High	Critical
	Occasional 3	Very Low	Low	Moderate	High	High
	Infrequent 2	Very Low	Very Low	Low	Moderate	Moderate
	Rare 1	Very Low	Very Low	Low	Low	Moderate
		1 Very Low	2 Low	3 Moderate	4 High	5 Critical
		Impact				



# Managing Risks: Avoiding And Transferring



# Managing Risks: Mitigate and Accept



# Application Of Internal Controls

Strategy Selection  
Is About Making  
Choices And Acting  
Trade-offs

## Inherent Risk vs Residual Risk



# Every Control Has A Cost

**“An Effective System Of Internal Control Demands More Than Rigorous Adherence To Policies And Procedures: It Requires The Use Of Judgment. Management And Boards Of Directors Use Judgment To Determine How Much Control Is Enough.”**

- **Coso Internal Control – Integrated Framework**
- **A Cost-benefit Analysis Should Be Conducted To Make Sure That The Benefits Of Planned Controls Exceed The Cost Of Implementing Them In The System.**
- **Controls Are Considered Cost-effective When Their Anticipated Benefits Exceed Their Anticipated Costs.**



# Types of Internal Controls

## Preventative

Prevent A Potential Problem From Occurring When An Activity Is Performed

Examples:

- Network Firewall
- Segregation Of Duties
- Dual Authorization
- Employee Background Checks

## Detective

Discover The Occurrence Of Adverse Events

Examples:

- Tip Hotline
- Internal Audits
- Cash Account Reconciliations
- Transaction Logs

## Corrective

Remedy Problems Discovered Through Detective Controls

Examples:

- Automated System Patching
- Disciplinary Action Policies

## TOP 3 WAYS FRAUD IS DETECTED in government organizations:



**44%**  
TIP



**18%**  
INTERNAL AUDIT



**11%**  
MANAGEMENT REVIEW

*Association of Certified Fraud Examiners Occupational Fraud 2024: A Report To The Nations®*

**If Treasury Or The Secretary Of State Determined That Fraud Had Occurred, They Would Work With Human Resources And The Oregon Department Of Justice To Determine Appropriate Disciplinary Actions To Take Up To And Including Dismissal And Prosecution.**



Have concerns about the potential misuse of state government resources?

## STATE GOVERNMENT ACCOUNTABILITY HOTLINE

Call toll free  
**800-336-8218**

Report online  
**[accountability.oregon.gov](https://accountability.oregon.gov)**

We examine potential misuse of state resources. These inquiries mainly occur at state agencies, but may involve other entities receiving state or federal funds from state agencies. Misuse may involve fraud, waste, or abuse.

**Your identity is protected by law.**  
You may report anonymously.



# Internal Audit Reports

The Following Internal Audits Were Performed In 2024:

- Information Technology (IT) Vulnerability Audit
- IT Incident Operations Audit
- BCP/DR/COOP Audit
- Banking Wire Transfer Audit
- Unclaimed Property Holder Program Audit
- Investment Fixed Income Audit
- Unclaimed Property Audit
- Public Equity Audit
- Debt Management Audit
- IT Incident Management (InfoSec) Audit

# External IT Audit Reports

## Report No 2021-12: Cybersecurity Controls Audit

- **Scope Of The Audit:** This Audit Assessed Security Controls And The IT Security Management At Treasury.
- **Findings:** No Significant Findings Or Material Weaknesses Were Noted On Treasury Operations.
  - The Secretary of State Report Noted That Treasury Has A Robust Security Management Program That Establishes A Framework For Assessing Risk, Developing, And Implementing Effective Security Procedures, And Monitoring The Effectiveness Of Those Procedures, And That The Agency's Focus, Investment, And Progress Towards Maintaining A Secure It Environment Is Commendable And Noteworthy.

# External Financial Statement Audit Reports

The Following Audits Found “No Significant Deficiencies Or Material Weaknesses Were Noted On Treasury Operations. There Were No Other Findings In The Audit Report.”:

- *Oregon Local Government Intermediate Fund For The Years Ended June 30, 2021, 2022, 2023, And 2024*
- *Oregon Short Term Fund - An Investment Pool Of The State Of Oregon - For The Years Ended June 30, 2021, 2022, 2023, 2024*
- *Oregon Intermediate Term Pool - An Investment Pool Of The State Of Oregon - For The Years Ended June 30, 2021, 2022, 2023, 2024*
- **Common School Fund Annual Financial Report For The Fiscal Years Ended June 30, 2022, 2024**

**The Common School Fund Annual Financial Report For The Fiscal Years Ended June 30, 2023, Identified One Control Weakness That Was Resolved In FY 2024.**





# Risk And Control Examples





# Investment Wire Transfers

**Risk: Wire Transfers For Investment Purchases Could Be Intentionally Or Unintentionally Sent To The Wrong Account**

## **Internal Controls:**

- **Investment Operations Establishes Names And Signatures For Each New Fund With The Fund Manager**
- **Investment Accounting And Custodian Are Included On All Capital Call Requests**
- **Capital Calls Can Only Be Initiated By The Custodian**
- **Investment Accounting Compares Wire Information And Signatures**
- **Release Must Be Approved By A Manager**
- **The First Capital Call For A Fund Must Be Approved By A Sr Investment Officer Or Director**

# **Unclaimed Property Checks**

**Risk: Unclaimed Property is not returned to the rightful owner due to fraud or error**

## **Internal Controls:**

- **Claims System Access Is Limited To Those With Business Purpose**
- **Claims Are Never Initiated By Treasury Staff**
- **Claim Documentation Is Reviewed For Adequacy And Potential Issues. Information Is Compared To Data From Credit Bureaus And Other Public Sources**
- **Claims Require A Minimum Of Two Approvals**
- **Email Is Sent To Claimant Letting Them Know A Claim Was Submitted As Well As When It Is Approved So They Know To Expect The Check**

# Employee Fraud

**Risk: Employees may intentionally or unintentionally misappropriate assets or manipulate financial information.**

## Internal Controls:

- Background Checks Of All Hires
- Annual Compliance Training
- Code Of Conduct Policy
- Quarterly Financial Disclosures Review by Compliance
- Role Based Access Controls on Key Systems

# Public Funds Collateral

**Risk: Treasury Staff Could Improperly Release Collateral Safeguarding Public Funds**

**Internal Controls:**

- **System Prevents Release If Remaining Collateral Would Be Below Minimum Collateral Requirement**
- **Release Must Be Approved By Two Authorized Individuals (One Must Be A Manager)**
- **Audit Log Of Releases**



# **Local Government Assets**

**Risk: Local Government Staff (Or Imposters) Could Intentionally Misdirect The Withdrawal Of Assets Invested in the Oregon Short Term Fund**

## **Internal Controls:**

- **Local Government Staff Must Be Registered/Permissioned By Authorized Individual**
- **External Bank Accounts Must Be Pre-registered/Approved By Two Authorized Individuals**
- **External Bank Accounts Must Be Owned By Local Government (Limited Exceptions For Debt Service Payments And Payments To State Agencies)**
- **E-mail Notifications For User/Bank Account Changes And Transactions**
- **Daily/Monthly Statements For Transactions**

# Cybersecurity Threats

**Risk: Treasury Is A High Value Target For Criminals And Constantly Under Attack**

**Internal Controls:**

- **Focused Investments In Cybersecurity**
- **Aligned to NIST 2.0 framework**
- **Network Firewalls**
- **Multi-factor Authentication**
- **Security Awareness & Training Program**
- **Automated Patching of Systems**
- **Migrating To Zero Trust Architecture**



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