Secretary of State
AUDIT REPORT

Report No. 2000-21 • June 14, 2000

Oregon Military Department: Change of Director Audit

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Summary

PURPOSE
We conducted a review of the Oregon Military Department for the purpose of complying with *Oregon Revised Statute* 297.210, which requires the Secretary of State to perform an audit when the executive head of a state agency leaves his or her position.

RESULTS IN BRIEF
We found that the Oregon Military Department is at risk for double payment of travel claims and may have spent state funds outside the allowable parameters. We also found that the department has suffered a potential loss of revenue because it did not adjust rents for state-owned housing according to fair market values and did not perform appraisals as necessary.

BACKGROUND

Authorized by ORS 396.305, the Military Department is the headquarters for Oregon's Army and Air National Guard. The Oregon National Guard is available to the federal government at the President's direction. The Oregon Military Department under the direction of the Governor is responsible for supervision of the state's military affairs.

The department supervises all matters relating to personnel administration, supply and logistical support of the Oregon National Guard, State Defense Force and all state-owned or leased military facilities. The department has over 50 facilities located throughout the state.

Appointed by the Governor, the Adjutant General serves as the department's administrative director and is responsible for the supervision and control of the department. Raymond F. Rees was appointed as the Adjutant General in 1994. He resigned from that position effective March 5, 1999.

SCOPE AND METHODOLOGY

This audit was conducted to comply with ORS 297.210, which requires the Audits Division to perform an audit when the executive head of an agency leaves, regardless of the reason. Our audit objectives were to assure appropriate actions were taken to cancel the previous Adjutant General's access to state systems and return any assets in his possession, and assure recent transactions authorized by the Adjutant General were reasonable and complied with applicable laws and regulations. Specifically, we:

- Reviewed the Adjutant General's access to state computer systems to ensure proper termination.
- Reviewed travel claims and other reimbursements payable to the Adjutant General during the final six months of service.
- Reviewed salary payable to or directly authorized by the Adjutant General during his last six months of service. We also reviewed vacation time accrued and paid to the Adjutant General.
- Reviewed contracts entered into by the Adjutant General and his immediate staff.
- Determined that fixed assets assigned to the former Adjutant General were returned to the department.

Due to issues raised during our fieldwork, we performed the following additional work:

- Reviewed documentation for the department's rental of military housing units for compliance with state laws.

We conducted our audit from October 1999 to March 2000 in accordance with generally accepted government auditing standards.

AUDIT RESULTS

Travel

The Oregon National Guard is available to the federal government at the President's direction. Therefore, the Adjutant General is at times required to perform federal business in conjunction with his state duties.

Some of the Adjutant General's duties require him to travel. If the

Adjutant General is ordered to federal active duty in conjunction with his state duties while on travel status, he is required to submit travel reimbursement claims to both the state and federal governments for their respective share of expenses.

We reviewed eight travel reimbursement claims submitted during the Adjutant General's last six months of service. Of these eight claims, two required him to submit a reimbursement claim to both the state and federal governments. We found these two claims to be appropriate and did not find duplication of expenses claimed.

However, the department's Financial Administration Office does not require a reconciliation between what is reimbursed by the federal government and what is to be reimbursed by the state. This increases the risk that double reimbursements of travel expenses can occur and not be detected.

We recommend the department develop specific written procedures for reimbursing the Adjutant General for allocated travel and other miscellaneous expenses. Specifically, these procedures should include requiring a reconciliation between state and federal reimbursement claims.

Agency Response:

We agree with the finding. The Financial Administration Division has prepared Policy AGC-02.002 effective February 1, 2000 that provides policies and procedures for determining travel and reimbursable expenses of The Adjutant General. The procedures include attaching a copy of any federal travel reimbursement request when The Adjutant General seeks reimbursement for travel from both the federal and state government. The State Financial Administration Division will perform a reconciliation of the federal and state reimbursement requests to ensure each expense reimbursement is from one source only.

The Adjutant General held a dinner meeting at a local restaurant. According to the department, the Adjutant General, three other generals, and their spouses attended this dinner meeting. The state reimbursed the Adjutant General for the dinner expense of all eight individuals.

Although records indicated that the dinner served an official state purpose, this dinner included state-paid meals for spouses who were not state employees, and for state employees who were not on state travel status. The department does not have a specific policy governing this type of purchase, and state rules do not allow one individual to claim reimbursement for the expenses of another.

We recommend the department develop specific written procedures for reimbursing state employees for travel and other miscellaneous expenses.

We also recommend the department reevaluate the appropriateness of reimbursing meals incurred when not on travel status and expenses incurred by employees' spouses.

Agency Response:

We agree with the finding. The agency has adopted the state travel policies effective May 26, 2000, and has reevaluated the appropriateness of reimbursing state employees for meals incurred when not on travel status. Additionally, the agency has included the policy and procedures for miscellaneous reimbursable expenses for The Adjutant General in policy AGC-02.002 effective February 1, 2000. The policy includes examples of expenses that may be reimbursed. The reimbursement of any miscellaneous expenses will be fully documented and appropriate for the circumstances.

Housing

The department did not adhere to state laws when renting agency-owned housing. The department owns nine housing units, which it rents to employees. One of these units was rented to the Adjutant General. The state housing laws require using a qualified appraiser to determine the fair rental value of each housing unit at least once every five years, adjusting rent annually for any changes in real estate values, and reporting the fair rental value, date of last appraisal, and amount and explanation of any reductions from the fair rental value.

The department did not ensure the fair rental value of each unit was reexamined within the prescribed five-year period by a qualified appraiser, and the rent adjusted annually, as required by state law.

We contacted the county assessors' offices for each county where the department maintains rental housing units. We obtained property value increases for each county from 1992 through 1999 and applied these percentage increases to the department's latest appraised values, as applicable.

We estimate that the department should have collected $183,000 from 1993 to 1999 if rents were adjusted to reflect property value increases. However, only $126,000 would have been collected based on the department's actual rental rates during this time. Therefore, we estimate the department has failed to collect as much as $57,000 rent had the units been fully occupied. Of this total, $14,000 is due to the department reducing the rent of one of the units by $220 a month since August 1994. The department could not provide us with an appraisal to support this reduction.

We recommend the department hire a qualified appraiser to reexamine the fair rental value for all of its housing units and that this reexamination be completed at least once every five years thereafter.

We also recommend the department prepare current and up-to-date reports to reflect the appraisals, any reductions permitted, and rental charge, and to adjust the rental rate annually. Documentation should be prepared to support any adjustments made.

Additionally, the department should seek the advice of the Department of Justice to determine if the excess rent reductions should be recovered from employees.

Agency Response:

We agree with the finding. The agency hired an appraiser to review the fair rental values of all of the housing units. The appraisals were completed in April, and the agency is in the process of updating the rent reduction reports for the units. These reports should be completed by July 1, 2000, and the adjustments will be made to rental agreements as required at that time. These reports will be reviewed annually and adjusted by the changes in real estate values as determined by the agency. Documentation will be prepared to support all adjustments made. The next appraisal of the fair rental value of the housing units will be done by July 1, 2005

The agency has scheduled an appointment with the Department of Justice to determine if the excess rent reductions should be recovered from employees.

This report, which is a public record, is intended to promote the best possible management of public resources. Copies may be obtained by mail at Oregon Audits Division, Public Service Building, Salem, Oregon 97310, by phone at 503-986-2255 and 800-336-8218 (hotline), or internet at Audits.Hotline@state.or.us and http://www.sos.state.or.us/audits/audithp.htm.

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The courtesies and cooperation extended by the officials and staff of the Oregon Military Department were commendable and much appreciated.

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