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Major General Raymond F. Rees, Adjutant General
Military Department, State of Oregon
PO Box 14350
Salem, Oregon 97309-5047

Dear General Rees:

We received allegations through the Government Waste Hotline that the Oregon Military Department (department) was not adequately managing its armory rental program. We investigated the validity of the allegations and found that only three of the allegations received through the hotline had merit. The three allegations we substantiated related to unauthorized use of one of the department's armories, untimely collection of rental receipts, and inadequate justification for changes in established rental rates. In accordance with ORS 177.180(2), allegations we did not verify remain confidential and are not discussed in this letter.

Background

The department operates thirty-six armories throughout the state that are available for rent to government organizations and the public when not in use for military purposes. Management of the rental program is handled centrally in Salem, with rental lease agents stationed in the cities where armories are located.

Unauthorized Use

The department's policies require prior authorization in the form of a signed rental contract for all non-military events held at armories. Important contract terms include security and insurance coverage to minimize the department's liability. In addition, the standard rental contract used by the department stipulates that armory users will not assign, delegate or transfer any of their rights or obligations under the contract without the department's prior consent.

The department had two instances of unauthorized use of the Klamath Falls armory. The first instance was an event organized by a local National Guard recruiter who did not comply with procedures requiring prior approval from the department's State Rental Program office for the event. It appears that the recruiter was not made aware of the preapproval requirements. As a result, the event took place in the armory without a rental contract in place, the department lost an opportunity to earn rental income for the event, and the department was at risk of increased liability during the event. According to department management, subsequent to the event they

communicated the policies and process for scheduling events at armories to the recruiter.

The second instance resulted from a lessee who did not comply with the rental contract and sublet office space at the Klamath Falls armory without prior authorization from the State Rental Program Office. The department became aware of the subletting activity approximately three months after it began. The department promptly asked the second party to vacate the premises, which they did.

We recommend department management ensure the policies and requirements of the armory rental program are timely communicated to armory users and department personnel.

Untimely Collection and Deposit of Rental Receipts

The department's policies generally require rental deposits and fees to be collected prior to each event and forwarded to the central office in Salem the next working day for deposit. The department is also required to adhere to the next-day deposit rule established in ORS 293.265.

We found the department was not always complying with its cash collection policies or with the state's next-day deposit rule. For example, rental fees for eight of 20 rental contracts we reviewed were not collected prior to the contracted event. In addition, not all rental receipts were mailed to the central office the day after they were collected. As a result, approximately \$18,000 in rental fees from nine of the 20 contracts reviewed were not deposited until one to four weeks after collection at the armories.

Timely collection and deposit of rental fees minimizes the risk of loss or theft and helps ensure the funds are available for the department's use.

We recommend department management ensure rental fees are collected and deposited in a timely manner.

Inadequate Justification for Rate Changes

The department's policies outline rental rates for rooms, equipment, and exterior space of each armory. The rates are categorized according to user type; that is, by government, noncommercial or commercial. In addition, the policies outline instances in which rate and deposit reductions may be approved by the rental program manager. Items to be considered when approving reductions include the amount of estimated revenue, type of activity, and cost and availability of the facility.

We reviewed 20 contract files and found that rental contracts were not always priced according to the department's established rates. Specifically, 10 of the 20 contracts were generally priced below the rates outlined in policy. For two of those 10 contracts, rates were reduced by more than two-thirds of the established rates. We also found inconsistent treatment of rental deposits. For example, for 13 of the 20 contracts, deposits were either waived or overcharged.

In most cases, the contract files did not contain adequate documentation to justify the changes from the department's rental rates and deposit policies. For example, amounts were crossed out or covered up and changes were written in, but no explanation for the changes was noted. Department management provided verbal justification for most of the modifications. Without this additional information, the lack of documented explanations made it difficult to obtain assurance the modifications were reasonable and proper.

We recommend department management ensure that each contract file contain documented justification for rate changes and policy deviations.

Methodology

We reviewed documentation related to the armory rental program and examined 20 contract files for four armories located in Grants Pass, Klamath Falls, Medford and Salem. We also traced rental transactions for those 20 contracts to the state's accounting system. We reviewed current policies and procedures relating to the controls and processes over the department's armory rental program and interviewed department personnel and customers.

We appreciate your staff's time and cooperation during this investigation. If you have any questions, please contact me at (503) 986-2351.

Sincerely,
OREGON AUDITS DIVISION

V. Dale Bond, CPA, CISA, CFE
Audit Manager

VDB:sms

cc: Karl Jorgenson, Director of Financial Administration