

**Office of the Secretary of State**

Kate Brown  
Secretary of State

Barry Pack  
Deputy Secretary of State



**Audits Division**

Gary Blackmer  
Director

255 Capitol St. NE, Suite 500  
Salem, OR 97310

(503) 986-2255  
**fax** (503) 378-6767

March 9, 2010

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

Dear General Rees:

We have completed the statewide single audit that included a selected federal program at the Oregon Military Department (department) for the year ended June 30, 2009.

We audited the following federal program at the department to determine whether the department substantially complied with the federal requirements relevant to the federal program. Our audit does not provide a legal determination of the department's compliance with those requirements.

<u>CFDA Number</u>	<u>Program Name</u>	<u>Audit Amount</u>
12.400	Military Construction – National Guard	\$28,692,404

This audit work is not a comprehensive audit of your federal program. Instead, the audit work performed allowed us, in part, to achieve the following objectives: (1) determine whether the state has complied with laws, regulations, contracts or grants that could have a direct and material effect on the major federal program and (2) determine whether the state has effective internal controls over compliance with the laws, regulations, contracts and grants applicable to the federal program.

In planning and performing our audit, we considered the department's internal control over compliance with requirements that could have a direct and material effect on the federal program in order to determine our auditing procedures for the purpose of expressing our opinion on the department's compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the department's internal control over compliance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal controls. As discussed below, we identified a deficiency in internal control that we consider to be a significant deficiency.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency to be a significant deficiency in internal control:

**Funding Source Is Not Clearly Documented for Equipment Purchases**

The National Guard Bureau (NGB) regulation 415-5, Section 4-5, allows funds for the Military Construction – National Guard program (program) to be used for installed building equipment that is affixed or built into the facility and becomes an integral part of the facility. This type of equipment is normally provided as a part of the construction contract and is included as a funded construction cost. All other types of equipment as defined in the regulations must be purchased with other funds. It is the department's responsibility to ensure that program funds are expended according to NGB regulations.

During our audit, we noted that an invoice for a current construction project included several equipment purchases that did not meet the requirements established for program funds. The department could not provide documentation to clearly show that this equipment was purchased with other funds. Although department management stated that each line item in contractor invoices is carefully considered in determining funding sources, the allocation process is not documented. As a result, the department could not demonstrate that program funds were only used for allowable equipment purchases.

**We recommend** department management ensure its funding allocation process is fully documented to clearly demonstrate program funds are used only for allowable equipment purchases.

The significant deficiency, along with your response, will be included in our Statewide Single Audit Report for the Fiscal Year Ended June 30, 2009. Including your response satisfies the federal requirement that management prepare a Corrective Action Plan covering all reported audit findings. Satisfying the federal requirement in this manner, however, can only be accomplished if the response to the significant deficiency includes the information specified by the federal requirement, and only if the response is received in time to be included in the audit report. The following information is required for the response:

- 1) Your agreement or disagreement with the finding. If you do not agree with the audit finding or believe corrective action is not required, include in your response an explanation and specific reasons for your position.
- 2) The corrective action planned.

Major General Raymond F. Rees, Adjutant General  
Oregon Military Department  
Page 3

- 3) The anticipated completion date.
- 4) The name(s) of the contact person(s) responsible for corrective action.

Please respond by March 17, 2010.

This communication is intended solely for the information and use of management, others within the organization, and is not intended to be and should not be used by anyone other than the specified parties.

We appreciate your staff's time and cooperation during this audit. Should you have any questions, please contact Raul Valdivia or me at (503) 986-2255.

Sincerely,  
OREGON AUDITS DIVISION

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

VDB:sms

cc: Karl Jorgenson, Adjutant General Comptroller  
Bryce Dohrman, Controller  
Scott Harra, Director, Department of Administrative Services