

**Office of the Secretary of State**

Kate Brown  
Secretary of State

Barry Pack  
Deputy Secretary of State



**Audits Division**

Gary Blackmer  
Director

255 Capitol Street NE, Suite 500  
Salem, OR 97310

(503) 986-2255

**fax** (503) 378-6767

March 10, 2011

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

Dear General Rees:

We have completed audit work of a selected federal program at the Oregon Military Department (department) for the year ended June 30, 2010.

This audit work was not a comprehensive audit of your federal program. We performed this audit work as part of our annual statewide single audit. The audit work performed allowed us, in part, to achieve the following objectives: (1) determine whether the department has complied with laws, regulations, contracts or grants that could have a direct and material effect on the selected federal program and (2) determine whether the department has effective internal controls over compliance with the laws, regulations, contracts and grants applicable to the selected federal program. 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.

CFDA Number	Program Name	Audit Amount
12.400	Military Construction, National Guard	\$ 39,244,112
12.400	ARRA - Military Construction, National Guard	1,300,000

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 major federal program to determine the auditing procedures for the purpose of expressing our opinion on the department's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of the federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal

control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the paragraph above and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

### **Suspension and Debarment Verification Process Needs Improvement**

<b>Program Title and CFDA Number:</b>	Military Construction, National Guard (12.400)
<b>Federal Award Number and Year:</b>	W912JV-07-2-2001; FY2007, W912JV-05-2-2002; FY2007, W912JV-05-2-2001; FY2006, W912JV-06-2-2001; FY2006
<b>Compliance Component:</b>	Procurement, Suspension, and Debarment
<b>Type of Finding:</b>	Significant Deficiency
<b>Questioned Cost:</b>	None

Military Construction Cooperative Agreements governing the Military Construction, National Guard grant prohibit the State from making any award to any party that is debarred or suspended or is otherwise excluded from or ineligible for participation in federal assistance programs. OMB Circular A-133 notes that federal suspension and debarment can be verified by checking the Excluded Parties List System (EPLS), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity. In our review of contract files for seven active contracts in fiscal year 2010, we found five that did not include evidence of verification or certification that the contractors were not suspended or debarred. We independently verified through EPLS that none of the contractors were suspended or debarred.

**We recommend** department management implement procedures to verify and document entities are not suspended or debarred from participation in federal assistance programs.

### **Prior Year Finding**

In the prior fiscal year, we reported a significant deficiency related to the department's separate identification of unallowable costs in a letter dated March 9, 2010. This finding can also be found in the Statewide Single Audit Report for the fiscal year ended June 30, 2009; see Secretary of State audit report number 2010-19, finding number 09-29. During fiscal year 2010, the department implemented a process to separately identify unallowable costs. This finding will be

reported in the Statewide Single Audit Report for the fiscal year ended June 30, 2010, with a status of corrective action taken.

The significant deficiency, along with your response, will be included in our Statewide Single Audit Report for the fiscal year ended June 30, 2010. 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.
- 3) The anticipated completion date.
- 4) The name(s) of the contact person(s) responsible for corrective action.

Please respond by March 18, 2011.

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

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

Sincerely,  
OREGON AUDITS DIVISION

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

VDB:MNS:nmj

cc: Karl Jorgenson, Adjutant General Comptroller  
Bryce Dohrman, Controller  
Michael Williams, Economic Recovery Executive Team, Office of the Governor  
Kris Kautz, Acting Director, Department of Administrative Services