**Office of the Secretary of State**

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March 2, 2012

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

Dear General Rees:

We have completed audit work of selected financial accounts at the Oregon Military Department (department) for the year ended June 30, 2011, and have issued our letter thereon dated December 12, 2011. This audit work was not a comprehensive audit of the department. This work was performed for the purpose of forming our opinions on the financial statements that collectively comprise the State of Oregon's basic financial statements. The schedule of federal awards accompanying the basic financial statements is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information, as it relates to your department, has been subjected to auditing procedures applied in the audit of the basic financial statements, in relation to the basic financial statements taken as a whole.

In planning and performing our audit of the selected financial accounts at the department as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the department's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements of the State of Oregon, but not for the purpose of expressing an opinion on the effectiveness of the department's internal control. Accordingly, we do not express an opinion on the effectiveness of the department's internal control.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. As discussed below, we identified a deficiency in internal control that we consider to be a significant deficiency.

## Improve Controls Over SEFA Reporting

Each state agency is responsible for reviewing their federal expenditure data to ensure the accuracy and completeness of the Schedule of Expenditures of Federal Awards (SEFA) for their agency. During our audit, we found that the department did not accurately present expenditures for the Military Construction, National Guard program. The error occurred because staff preparing the data did not include the data field to separately identify American Recovery and Reinvestment Act (ARRA) expenditures. An adjustment of $1.8 million was necessary to properly present ARRA expenditures for the program, and reduce the regular program expenditures.

**We recommend** department management ensure their federal expenditure data is complete and accurate for SEFA reporting.

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 12, 2012.

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