

**Office of the Secretary of State**

Kate Brown  
Secretary of State

Brian Shipley  
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

January 15, 2013

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

Dear General Rees:

We have completed audit work of selected financial accounts at the Oregon Military Department (department) for the year ended June 30, 2012.

This audit work was not a comprehensive audit of the department. We performed this audit work as part of our annual statewide financial audit. The objective of the statewide audit was to express an opinion on whether the financial statements contained in the State of Oregon's Comprehensive Annual Financial Report were fairly presented, in all material respects, in conformity with generally accepted accounting principles.

In planning and performing our audit of the selected financial accounts at the department as of and for the year ended June 30, 2012, 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.

We audited the following accounts at the department and determined their fair presentation in accordance with generally accepted accounting principles in relation to the statewide financial statements.

<u>SFMA Account</u>	<u>Description</u>	<u>Audit Amount</u>
<u>GAAP Fund 0001 – General Fund</u>		
3111	Regular Employees	\$1,910,752
3210	Public Employees Retirement Contribution	425,168
3212	Pension Bond Assessment	125,123
3221	Social Security Taxes	149,635
3263	Medical, Dental, Life Insurance	551,143

GAAP Fund 1103 – Community Protection Fund

3111	Regular Employees	\$17,727,042
3210	Public Employees Retirement Contribution	2,902,630
3212	Pension Bond Assessment	1,121,081
3221	Social Security Taxes	1,418,039
3263	Medical, Dental, Life Insurance	5,673,222

GAAP Fund 8500 – Government-Wide Reporting Fund

0852	Buildings and Building Improvements	\$276,900,000
0875	Accumulated Depreciation – Buildings	57,459,808

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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified the following other matter that is an opportunity to strengthen internal controls. This other matter does not require a written response from management.

**Other Matter**

Costs for minor construction projects are budgeted as operations and maintenance and may or may not result in a capital asset. These costs are recorded in construction in progress, but do not have specific project numbers. Based on a review of this account at June 30, 2012, about \$14 million related to minor construction expenditures and at least \$2.5 million of the costs were over six years old. The construction in progress account is intended as a temporary holding place for expenditures related to assets that are expected to be capitalized in the near future.

**We recommend** department management identify the projects, including minor construction, outstanding in construction in progress and make any necessary adjustments for these projects. In addition, we recommend that management develop a process to ensure that minor construction project costs are monitored and removed from this account in a timely manner.

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

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

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

Sincerely,  
OREGON AUDITS DIVISION

Kelly L. Olson, CPA  
Audit Manager

KLO:nmj

cc: Brigadier General Mike Caldwell, Deputy Director  
Karl Jorgenson, Director, Financial Administration Division  
Bryce Dohrman, Controller  
Michael J. Jordan, Director, Department of Administrative Services