



**Steve Bergmann**  
Division Director

March 19, 2025

Brigadier General Alan R. Gronewold, Adjutant General  
Oregon Military Department  
1776 Militia Way SE  
Salem, OR 97301

Dear General Gronewold:

We have completed audit work of a selected federal program at the Oregon Military Department (department) for the year ended June 30, 2024.

<u>Assistance Listing Number</u>	<u>Program Name</u>	<u>Audit Amount</u>
12.401	National Guard Military Operations and Maintenance (O&M) Projects	\$67,694,212

This audit work was not a comprehensive audit of your federal program. We performed this federal compliance audit as part of our annual Statewide Single Audit. The Single Audit is a very specific and discrete set of tests to determine compliance with federal funding requirements, and does not conclude on general efficiency, effectiveness, or state-specific compliance. The Office of Management and Budget (OMB) Compliance Supplement identifies internal control and compliance requirements for federal programs. Auditors review and test internal controls over compliance for all federal programs selected for audit and perform specific audit procedures only for those compliance requirements that could have a direct and material effect on the federal program under audit.

We are required to be independent of the department and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. Our audit does not provide a legal determination of the department's compliance with the compliance requirements referred to in Appendix A.

For the year ended June 30, 2024, we determined whether the department substantially complied with the compliance requirements listed in Appendix A as relevant to the federal program under audit.

#### *Responsibilities of Management for Compliance*

Department management is responsible for compliance with the requirements referred to in Appendix A, and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the federal program referred to above.

255 Capitol St NE, Ste 180  
Salem, Oregon 97310

**Tobias Read**  
Oregon Secretary of State

**Michael Kaplan**  
Deputy Secretary of State

Information (503) 986-2255  
sos.oregon.gov/audits

### *Auditor's Responsibilities for the Audit of Compliance*

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to in Appendix A occurred, whether due to fraud or error, and express an opinion on the department's compliance based on our audit work. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, Government Auditing Standards, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirement referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about the department's compliance with the federal program.

In performing an audit in accordance with GAAS, Government Auditing Standards, and the Uniform Guidance, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the department's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of the department's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of department's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### *Noncompliance*

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and are described below. Our opinion on the federal program is not modified with respect to these matters.

### *Internal Control Over Compliance*

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were

not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

*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 a 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. 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. We consider the deficiencies in internal control over compliance described below to be significant deficiencies.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

### *Audit Findings and Recommendations*

#### ***Ensure undisbursed obligation extension support is retained***

<b>Federal Awarding Agency:</b>	U.S. Department of Defense
<b>Assistance Listing Number and Name:</b>	12.401 National Guard Military Operations and Maintenance (O&M) Projects
<b>Federal Award Numbers and Years:</b>	W912JV (multiple appendices and years)
<b>Compliance Requirement:</b>	Period of Performance
<b>Type of Finding:</b>	Significant Deficiency; Noncompliance
<b>Prior Year Finding:</b>	N/A
<b>Questioned Costs:</b>	N/A

Criteria: National Guard Regulation 5-1, Chapter 11-10

Federal regulations state only costs obligated during the period of the federal fiscal year or period of performance identified in the cooperative agreement, are reimbursable. If undisbursed obligations remain 90 days after the close of the federal fiscal year, the recipient shall submit an extension, a detailed listing of un-cleared obligations and a projected timetable for their liquidation and disbursement, no later than December 31.

We identified 18 state fiscal year 2024 expenditures recorded to agreements with federal fiscal years 2020-2023. As the original periods of performance would have ended, these expenditures should have been detailed on submitted extensions. The department provided support for five extensions although some did not include the listing of un-cleared obligations. The department could not provide support that extensions

were made for the remaining 13 agreements. Without retaining adequate documentation for extensions, the department risks losing federal funding for undisbursed obligations which would then be reimbursed with state funds. The department provided a lack of management oversight and lack of codified processes as the cause of these exceptions.

**We recommend** department management ensure support is retained for all submitted cooperative agreement extensions including the listings of un-cleared obligations.

***Ensure payroll expenditures are coded to the correct period and errors are corrected timely***

<b>Federal Awarding Agency:</b>	U.S. Department of Defense
<b>Assistance Listing Number and Name:</b>	12.401 National Guard Military Operations and Maintenance (O&M) Projects
<b>Federal Award Numbers and Years:</b>	W912JV-23-2-1021, 2023; W912JV-23-2-1024, 2023; W912JV-23-2-1001, 2023; W912JV-19-2-1001, 2019
<b>Compliance Requirement:</b>	Period of Performance
<b>Type of Finding:</b>	Significant Deficiency; Noncompliance
<b>Prior Year Finding:</b>	N/A
<b>Questioned Costs:</b>	\$35,820 (known);

Criteria: National Guard Regulation 5-1, Chapter 11-2

Federal regulations require that grantees must obligate funds in the federal fiscal year specified in the relevant appendix to be reimbursable by federal funds.

We queried the Oregon Military Department's (department) accounting records and identified 12 awards by federal fiscal year 2019-2023 with payroll expenditures charged in federal fiscal year 2024, which is outside the period of performance. We analyzed these awards and included any correcting entries. After corrections, five awards still had payroll recorded outside the period of performance. For activity in two awards, the department provided support that although the accounting records still had not been corrected as of March 2025, the department had not sought reimbursement. For four awards, we question costs of \$35,280. The department may have not sought reimbursement but could not easily locate the supporting documentation. According to department management, these errors were due to incorrect coding in the payroll system. While the department is aware of some of these errors, it is not timely correcting the errors as several of the uncorrected errors are more than a year old.

If the underlying accounting records do not properly account for transactions, the department could inappropriately request reimbursement for obligations that are outside of the period of performance for the grant.

**We recommend** department management implement controls to ensure payroll expenditures are coded correctly and timely correct errors when identified.

### *Response to Current Year Findings*

The audit findings and recommendations above, along with your responses, will be included in our Statewide Single Audit Report for the fiscal year ended June 30, 2024. Including your responses 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 each significant deficiency includes the information specified by the federal requirement, and only if the responses are received in time to be included in the audit report. The following information is required for each response:

1. Your agreement or disagreement with the finding. If you do not agree with an 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 for each audit finding.
3. The anticipated completion date.
4. The contact person(s) responsible for corrective action.

Please provide a response to Kelly Olson by March 25, 2025 and provide Rob Hamilton, State Controller, a copy of your Corrective Action Plan.

The purpose of this communication is solely for the information and use of management and others within the organization to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this communication is not suitable for any other purpose.

We appreciate your staff's assistance and cooperation during this audit. Should you have any questions, please contact Aaron Hiddleson, Lead Auditor, or Kelly Olson, Audit Manager, at [Aaron.Hiddleson@sos.oregon.gov](mailto:Aaron.Hiddleson@sos.oregon.gov) or [Kelly.L.Olson@sos.oregon.gov](mailto:Kelly.L.Olson@sos.oregon.gov).

Sincerely,

*Office of the Secretary of State, Audits Division*

cc: Sean McCormick, Chief of State Affairs  
Jaclynn Moore, Chief Audit Executive  
Berri Leslie, Director and Chief Operating Officer, Department of Administrative Services  
Rob Hamilton, State Controller, Department of Administrative Services

**APPENDIX A**

<b>Compliance Requirement</b>	<b>General Summary of Audit Procedures Performed</b>
Activities Allowed or Unallowed	Determined whether federal awards were expended only for allowable activities.
Allowable Costs/Cost Principles	Determined whether charges to federal awards were for allowable costs and that indirect costs were appropriately allocated.
Cash Management	Confirmed program costs were paid for before federal reimbursement was requested, or federal cash drawn in advance was for an immediate need, and applicable interest was reported/remitted.
Matching	Determined whether the minimum amount or percentage of contributions or matching funds was provided.
Period of Performance	Determined whether federal funds were used only for allowable costs incurred during the authorized performance period.
Reporting	Verified the department submitted financial and performance reports to the federal government in accordance with the grant agreement and that those financial reports were supported by the accounting records.