

Office of the Secretary of State

Shemia Fagan
Secretary of State

Cheryl Myers
Deputy Secretary of State



Audits Division

Kip R. Memmott, MA, CGAP, CRMA
Director

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

503-986-2255

April 13, 2021

Major General Michael E. Stencel, The Adjutant General
Oregon Military Department
1776 Militia Way SE
Salem, Oregon 97309-5047

Dear Major General Stencel:

We have completed audit work of a selected federal program at the Oregon Military Department (department) for the year ended June 30, 2020.

<u>Assistance Listing Number</u>	<u>Program Name</u>	<u>Audit Amount</u>
12.401	National Guard Military Operations and Maintenance Projects	\$59,152,418

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 issues. 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 are direct and material to the federal program under audit. For the year ended June 30, 2020, we determined whether the department substantially complied with the following compliance requirements relevant to the federal program under audit.

Compliance Requirement	General Summary of Audit Procedures Performed
Activities Allowed or Unallowed	Determined whether federal monies 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 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.

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

Department management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the department’s internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major program and to test and report on internal control over compliance in accordance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), 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 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. As discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

Audit Findings and Recommendations

Strengthen controls to ensure financial reports are accurate and adequately supported by accounting records

Federal Awarding Agency:	Department of Defense
Assistance Listing Name and Number:	National Guard Military Operations and Maintenance Projects (12.401)
Federal Award Numbers and Years:	W912JV-18-2-1002, 2018; W912JV-19-2-1001, W912JV-19-2-1011, W912JV-19-2-1022, W912JV-19-2-1040, 2019; W912JV-20-2-1001, W912JV-20-2-1007, W912JV-20-2-1010, W912JV-20-2-1021, 2020
Compliance Requirement:	Reporting
Type of Finding:	Material Weakness, Noncompliance
Prior Year Finding:	2019-21
Questioned Costs:	N/A

Criteria: 2 CFR 200.303(a), 2 CFR 200.302(b)

The Oregon Military Department (department) is responsible for establishing controls to ensure federal financial reports include all activity of the reporting period, are supported by applicable accounting records, and are fairly presented in accordance with governing requirements. The department has not implemented sufficient controls to ensure amounts reported are supported by accounting records.

The Master Cooperative Agreement is separated into appendices that support various program objectives. For example, there are several appendices for operations and maintenance, environmental, and security objectives. The department completes the Request for Advance or Reimbursement (SF-270) reports to obtain reimbursement for federal expenditures.

We reviewed a random sample of 32 SF-270 reports for fiscal year 2020 and found the following:

- For 9 reports, the amounts reported for cumulative federal and non-federal expenditures did not agree to the accounting records because the department used a combination of the accounting records and a subsidiary system as the basis for requesting reimbursement and because the department does not separately account for non-federal expenditures by federal fiscal year. Additionally, some expenditures are driven by construction contracts that span several years, resulting in the reconciliation process occurring several years after the grant award begins. Overall, the process results in cumulative federal expenditures being understated on the federal reports and contributes to the department's cash flow challenges.
- In response to the prior year finding, the department changed its process during December 2019 to rely on the accounting records for reporting amounts rather than the subsidiary system. However, differences were still identified on reports submitted after December 2019.

We recommend department management ensure corrections are made in the accounting records as errors are identified and consider implementing the use of additional data fields within the accounting system to promote accurate federal reporting. Finally, we recommend the department separately account for non-federal expenditures by federal award.

Strengthen controls to ensure expenditures are not obligated beyond the period of performance

Federal Awarding Agency: Department of Defense
Assistance Listing Name and Number: National Guard Military Operations and Maintenance Projects (12.401)
Federal Award Numbers and Years: W912JV-19-2-1001; 2019
Compliance Requirement: Period of Performance
Type of Finding: Significant Deficiency, Noncompliance
Prior Year Finding: N/A
Questioned Costs: \$25,682 (known)

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

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

We judgmentally reviewed payroll expenditures recorded to federal fiscal year 2019 funds in the accounting records that appeared to be obligated after September 30, 2019. Our review of supporting documentation found:

- In three payroll months, payroll for 5 employees was incorrectly coded to the federal fiscal year 2019 grant award and the department could not locate payroll corrections. Total questioned costs in these cases were \$25,682.

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

We recommend department management implement control procedures to ensure payroll is coded to the correct federal grant awards and identify and correct all errors noted.

Strengthen controls to ensure level of federal support for expenditures is adequately documented

Federal Awarding Agency: Department of Defense
Assistance Listing Name and Number: National Guard Military Operations and Maintenance Projects (12.401)
Federal Award Numbers and Years: W912JV-20-2-1001; 2020
Compliance Requirement: Matching; Allowable Costs
Type of Finding: Significant Deficiency, Noncompliance
Prior Year Finding: N/A
Questioned Costs: \$372 (known), \$122,465 (likely)

Criteria: National Guard Pamphlet 420-10, Chapter 7-2; National Guard Regulations 5-1, Chapter 3 and 11; 2 CFR §200.333

Program guidance indicates that the rate at which authorized Operations and Maintenance costs are federally reimbursed is based on the Facilities Inventory and Support Plan (FISP) agreement support code for the facility(s) generating the costs. For example, if a facility's FISP agreement

support code indicates the facility is authorized for 75% federal support, the generated costs will be federally supported at 75%.

Federal regulations also require grantees to retain supporting documentation for audit for up to 6 years and 3 months. Without adequate supporting documentation, expenditures are not able to be determined accurate or allowable for the program.

We reviewed a random sample of 40 expenditures and for two transactions related to one vendor the department was unable to provide documentation that detailed additional costs billed above the monthly billing rates per the purchase order with the vendor. This resulted in known questioned costs of \$94. We also determined some of the federal match rates used in the two transactions were not correctly calculated for the facilities included. Using the department's methodology for calculating federal match rates for facilities with multiple match rates depending on federal support of activities in each facility area, we identified known questioned costs of \$278 and \$122,465 in likely questioned costs when total known costs were projected to the population.

Without adequate documentation, the department is unable to support expenditures charged to the federal award.

We recommend department management ensure that adequate documentation is retained to support the expenditures and the matching rates charged to the federal award.

Prior Year Findings

In the prior fiscal year, we reported noncompliance and internal control findings in the Statewide Single Audit Report related to National Guard Military Operations and Maintenance Projects. For the fiscal year-ended June 30, 2019, see Secretary of State audit report number 2020-14.

During fiscal year 2020, the department took a number of corrective actions but progress was significantly limited due to the effects of the Covid-19 pandemic. The uncorrected findings will be reported in the Statewide Single Audit Report for the fiscal year-ended June 30, 2020 with a status of partial corrective action taken.

Prior Year Finding No.	Finding Title	Status
2019-021	Strengthen Controls to Ensure Financial Reports are Accurate and Adequately Supported by Accounting Records	Partial Corrective Action Taken
2019-022	Strengthen Controls to Ensure Expenditures Do Not Exceed Obligated Amounts	Partial Corrective Action Taken

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, 2020. 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 and material weakness 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, Audit Manager, by Thursday, April 15, 2021 and provide Rob Hamilton, Statewide Accounting and Reporting Services (SARS) Manager, a copy of your Corrective Action Plan.

The purpose of this communication is solely 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 Austin Moore at Austin.R.Moore@Oregon.gov or Kelly Olson at Kelly.L.Olson@Oregon.gov.

Sincerely,

Office of the Secretary of State, Audits Division

cc: Sean McCormick, Financial Administration Division Director
Stanley Hutchison, Director of Installations
Pam Strobel-Powers, Internal Auditor
Katy Coba, Director, Department of Administrative Services
Rob Hamilton, SARS Manager, Department of Administrative Services