



**Office of the Washington State Auditor  
Pat McCarthy**

July 27, 2023

Major General Bret Daugherty, Director and Adjutant General  
Military Department  
Tacoma, Washington

Management Letter

This letter includes a summary of specific matters that we identified in planning and performing our audit of the Military Department from July 1, 2020 through June 30, 2022. We believe our recommendations will assist you in improving the Department's compliance in these areas.

We will review the status of these matters during our next audit. We have already discussed our comments with and made suggestions for improvements to Department officials and personnel. If you have any further questions, please contact me at (564) 999-0786 or [Cavan.Busch@sao.wa.gov](mailto:Cavan.Busch@sao.wa.gov).

This letter is intended for the information and use of management and the governing body and is not suitable for any other purpose. However, this letter is a matter of public record and its distribution is not limited.

We would also like to take this opportunity to extend our appreciation to your staff for their cooperation and assistance during the audit.

Sincerely,

*Cavan Busch*

Cavan Busch, Audit Manager

Attachment

Management Letter  
Military Department  
July 1, 2020 through June 30, 2022

**Rental Lease Program**

The Washington Army National Guard (WAARNG) Regulation 210-1 requires that The Adjutant General (TAG) or Chief Financial Officer (CFO) authorize all rentals and leases. WAARNG 210-1 requires renters and lessees to provide the Washington Military Department with a Certificate of Insurance stating that they have liability insurance in effect of no less than \$1 million per occurrence for bodily injury and property damage liability combined. Additionally, the Department enters into lease agreements with varying negotiated payment terms. State law (RCW 38.40.210) requires all receipts from the rental or lease of state-owned Military Department property be deposited into a dedicated account.

In our previous audit, we issued a finding that reported the Department did not comply with state law and its own policies for administering the Rental Lease Program. In this audit, we found that the Department had partially implemented its Corrective Action Plan. We noted improvement in the Department's documentation practices for retaining lease agreements and payment records.

However, we examined seven leases during the current audit, including monthly rent and various utilities expenses totaling \$236,925, and found:

- One lease was executed prior to the CFO or TAG authorizing the lease.
- The Department was unable to provide documentation supporting that one lease was paid in full. The Department was owed \$1,039 from the lessee.
- The Department was unable to provide Certificates of Insurance for six leases.

We recommend the Department continue to improve its documentation to ensure compliance with state law and its own policy. We also recommend the Department follow up with lessees to ensure that proper documentation is collected, and any outstanding balances owed to the Department are paid in full.

**Procurement and contract management**

Department policy DIR-011-13 delegates authority to the Assistant Adjutant Generals for Air and Army, or the CFO, to execute contracts on behalf of the Department. According to state law (RCW 39.26.110), agency employees may not execute or manage contracts unless they have met the training/certification requirements set by the Department of Enterprise Services. State law (RCW 39.26.125) further requires that all contracts be entered into pursuant to competitive solicitation, with certain exceptions.

We examined five information technology contracts awarded by the Department, totaling \$4,028,825.

The Department informed us that one of these contracts, totaling \$3,672,826, had been entered into by an employee without proper authorization, and did not follow state requirements for selecting the appropriate method of awarding a contract. The Department could not provide documentation that the employee who executed the contract had received the required procurement and contract management training. The Department did not pay the contracted vendor for services performed, but settled after the audit period for \$203,000.

We also found a second contract for \$72,949 for which the Department could not provide documentation demonstrating that the employee managing the contract had completed the required contract management training.

We recommend that the Department:

- Ensure staff responsible for executing and managing contracts receive required training
- Communicate policies and related requirements to all staff to help ensure that procurement requirements are followed
- Continue to monitor contracts to ensure it complies with state laws, regulations and internal policies for contracting