

Report To The Mississippi Legislature



A Review of the Mississippi Military Department's Operations at Camp Shelby

December 9, 1997

The Mississippi Military Department has adequate internal controls in place to safeguard appropriated public funds at Camp Shelby. Some non-appropriated public funds fall outside the normal internal control system, which has led to misuse by Camp Shelby management of two "checkbook" funds.

In a construction project, Military Department personnel exceeded federal cost ceilings, violated state purchasing regulations, poorly managed public funds, and may have violated other federal, state, and National Guard regulations.

Camp Shelby generally has and implements good controls over state and federal property, but managers have occasionally used housing facilities on post for private purposes without adequately reimbursing the state.

Camp Shelby management adheres to Military Department regulations concerning the assignment, promotion, and appraisal of employees and the use of the dual employment system.

The PEER Committee

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The Mississippi Legislature created the Joint Legislative Committee on Performance Evaluation and Expenditure Review (PEER Committee) by statute in 1973. A standing joint committee, the PEER Committee is composed of five members of the House of Representatives appointed by the Speaker and five members of the Senate appointed by the Lieutenant Governor. Appointments are made for four-year terms with one Senator and one Representative appointed from each of the U. S. Congressional Districts. Committee officers are elected by the membership with officers alternating annually between the two houses. All Committee actions by statute require a majority vote of three Representatives and three Senators voting in the affirmative.

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The Committee assigns top priority to written requests from individual legislators and legislative committees. The Committee also considers PEER staff proposals and written requests from state officials and others.

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Operations at Camp Shelby**

December 9, 1997

**The PEER Committee
Mississippi Legislature**

The Mississippi Legislature

Joint Committee on Performance Evaluation and Expenditure Review

PEER Committee

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December 9, 1997

Honorable Kirk Fordice, Governor
Honorable Ronnie Musgrove, Lieutenant Governor
Honorable Tim Ford, Speaker of the House
Members of the Mississippi State Legislature

At its meeting of December 9, 1997, the PEER Committee authorized release of the report entitled A Review of the Mississippi Military Department's Operations at Camp Shelby.

A handwritten signature in cursive script that reads "Billy Bowles", written over a horizontal line.

Representative Billy Bowles, Chairman

**This report does not recommend increased
funding or additional staff.**

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A Review of the Mississippi Military Department's Operations at Camp Shelby

December 9, 1997

Executive Summary

Introduction

Camp Shelby is a military training facility in south Mississippi which is operated by the Mississippi Military Department. PEER reviewed internal controls, use of base housing, personnel management, and other aspects of the Military Department's operations at Camp Shelby.

Overview

The Mississippi Military Department has adequate internal controls in place to safeguard appropriated public funds at Camp Shelby. However, department management has not periodically reviewed implementation of these controls to prevent or detect violations and as a result some expenditures may have violated federal, state, and National Guard regulations.

Also, some non-appropriated public funds fall outside the normal internal control system, which has led to misuse by Camp Shelby management of two "checkbook" funds (the Activity Fund and the Officer's Club Board Fund). The Activity Fund had internal controls in place but managers overrode these controls and made several questionable expenditures. The Officer's Club Board Fund lacked the necessary internal controls to prevent questionable expenditures.

Another case of Camp Shelby management's failure to execute internal controls occurred in 1996 and 1997 during the construction of wetlands crossings to create armored vehicle training areas. On this federally funded construction project, Military Department personnel exceeded federal cost ceilings, violated state purchasing regulations, poorly managed public funds, and may have violated other federal, state, and National Guard regulations.

Concerning control over inventory and physical assets, Camp Shelby has and implements good controls over state and federal property on base.

Outside audits by state and federal auditors contribute to this system of controls.

Camp Shelby management has also occasionally used housing facilities on post for private, rather than public, purposes. While most housing at Camp Shelby is used for a legitimate public purpose, some senior members of the Military Department have used these facilities for private purposes without adequately reimbursing the state.

Finally, PEER reviewed the personnel policies and procedures of the Military Department as they are implemented at Camp Shelby. Camp Shelby management adheres to Military Department regulations concerning the assignment, promotion, and appraisal of employees and the use of the dual employment system.

Recommendations

1. The State Auditor and the Attorney General should review the Military Department's expenditure of \$3,992.42 (\$1,384.41 from the Activity Fund and \$2,608.01 from Officer's Club Fund) to determine whether these monies were inappropriately expended and whether these funds should be recovered from Military Department personnel. Also, the State Auditor should perform a complete audit of the Camp Shelby Activity Fund and the Camp Shelby Officer's Club Board Fund to determine if any other expenditures were unauthorized or inappropriate and to review the implementation of internal controls.
2. The State Department of Rehabilitation Services should review Camp Shelby's contracts with local soft drink distributors and determine whether they violated the Randolph-Sheppard Act, which requires that vending revenues on public property be remitted to Vocational Rehabilitation for the Blind.

3. The Military Department should bring the Activity Fund and Officer's Club Board Fund under the stricter internal controls to which other public moneys at Camp Shelby are subjected. The Military Department should report to the Legislature on how it intends to change internal controls for these funds to insure that they are protected from further misuse.
4. The State Auditor and the Attorney General should review the wetlands project expenditures to determine if Military Department personnel violated state, federal, or National Guard regulations in the course of this project. Also, the United States Property and Fiscal Office Auditor should perform a complete audit of the Camp Shelby wetlands project to determine the true costs of the project and to review adequacy of internal controls.
5. The Military Department should review its use of open contracts for equipment rental. The department should perform a needs analysis before entering into any further hourly service contracts. The department should develop policies requiring that these contracts are only used when absolutely necessary and not as a convenience or as a way to circumvent proper construction project procedures. Also, the Military Department should develop a policy to require Camp Shelby managers (and similar managers at other Military Department locations) responsible for supervising construction and maintenance contracts to monitor the time and performance of such contractors.
6. Camp Shelby managers should obtain competitive bids for major or minor construction projects and the department's Facilities Management Office in Jackson should manage these projects.
7. The State Auditor should audit the Billeting Fund and determine whether any additional fees should be collected from individuals using public property for private purposes. Also, the Military Department should develop a written policy for the use of the White House and Quonset huts which covers acceptable use of these facilities.
8. If the Camp Shelby Logistics Officer is allowed to remain in the Quonset hut, the Military Department should determine whether it should increase the rental rate to insure that the state does not lose money on utilities and other costs.
9. The Adjutant General should mandate that all Military Department personnel required to do so accurately complete their federal Confidential Financial Disclosure Agreement forms.

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A Review of the Mississippi Military Department's Operations at Camp Shelby

Introduction

Authority

The PEER Committee reviewed the Camp Shelby operations of the Mississippi Military Department pursuant to the authority granted by MISS. CODE ANN. Section 5-3-57 et seq. (1972).

Scope and Purpose

PEER reviewed operations, finances, use of base housing, and other aspects of the Military Department's operations at Camp Shelby. PEER sought to determine:

- whether Camp Shelby has and implements adequate internal controls regarding its financial assets and expends such assets in accordance with state and National Guard regulations and in an efficient and economical manner;
- whether Camp Shelby has and implements adequate controls over its inventory and physical assets to insure the most efficient and economical use of such assets;
- whether Camp Shelby management uses the White House, Lake Walker cabins, and officer housing for private, rather than public, purposes;
- whether Camp Shelby's dual employment system (employees having one type of job during the week and another on the weekend) is consistent with federal and state regulations and funding requirements and whether it results in efficient and economical use of personnel resources; and,
- whether Camp Shelby management adheres to state personnel and National Guard regulations regarding the assignment, promotion, and appraisal of employees.

Method

In conducting this review, PEER:

- reviewed state law and regulations and federal and National Guard regulations regarding the Military Department;
- analyzed financial and other records at the Military Department;
- reviewed reports by the Department of Finance and Administration (DFA);
- interviewed Military Department and other state and federal personnel; and,
- reviewed documents from contractors working at Camp Shelby.

Overview

The Mississippi Military Department has adequate internal controls in place to safeguard appropriated public funds at Camp Shelby. However, department management has not periodically reviewed implementation of these controls to prevent or detect violations, and as a result some expenditures may have violated federal, state, and National Guard regulations.

Also, some non-appropriated public funds fall outside the normal internal control system, which has led to misuse by Camp Shelby management of two “checkbook” funds (the Activity Fund and the Officer’s Club Board Fund). The Activity Fund had internal controls in place but managers overrode these controls and made several questionable expenditures. The Officer’s Club Board Fund lacked the necessary internal controls to prevent questionable expenditures.

Another case of Camp Shelby management’s failure to execute internal controls occurred in 1996 and 1997 during the construction of wetlands crossings to create armored vehicle training areas. On this federally funded construction project, Military Department personnel exceeded federal cost ceilings, violated state purchasing regulations, poorly managed public funds, and may have violated other federal, state, and National Guard regulations.

Concerning control over inventory and physical assets, Camp Shelby has and implements good controls over state and federal property on base. External audits by state and federal auditors contribute to this system of controls.

Camp Shelby management has also occasionally used housing facilities on post for private, rather than public, purposes. While most housing at Camp Shelby is used for a legitimate public purpose, some senior members of the Military Department have used these facilities for private purposes without adequately reimbursing the state.

Finally, PEER reviewed the personnel policies and procedures of the Military Department as they are implemented at Camp Shelby. Camp Shelby management adheres to Military Department regulations concerning the assignment, promotion, and appraisal of employees and the use of the dual employment system.

Background

History and Description of Camp Shelby

Camp Shelby was established in 1917 as a training site during World War I. The State of Mississippi acquired Camp Shelby in 1934 for use as a summer camp by the National Guard. The Workers Progress Administration built the White House, the base residence of the Adjutant General, in 1938.

Currently Camp Shelby encompasses over 135,000 acres (8,000 acres developed) in south central Mississippi. The camp is an important training site to the military because of the large firing ranges, impact areas, and maneuver training areas. It is one of the few sites available for armored vehicles to maneuver as a unit during training and is used by units from other states, the Army Reserve, active duty Army units, and units from the other military services. The Mississippi Military Department Installation Support Unit runs Camp Shelby. In the event of a major war or conflict, the federal government would mobilize Camp Shelby and expand the training site to accommodate large numbers of troops.

Most of the land at Camp Shelby is leased from the United States Forest Service. While the National Guard is using the land, it must operate under strict regulations established to protect the environment of the area. These regulations include limitations on the areas tracked vehicles can maneuver, protection of endangered species, and protection of wetlands areas.

In FY 1996 Camp Shelby employed 555 state employees and 458 federal technicians or active Guard members and received \$25,228 in state funds and \$25,018,383 in federal funds. The state funds were self-generated through the sale of timber from the training site, with revenues going to the Timber Fund. Camp Shelby also houses tenants which include National Guard and Army Reserve maintenance shops, active duty and reserve units, and a Regional Training Institute. These tenants reimburse the camp for expenditures such as utilities.

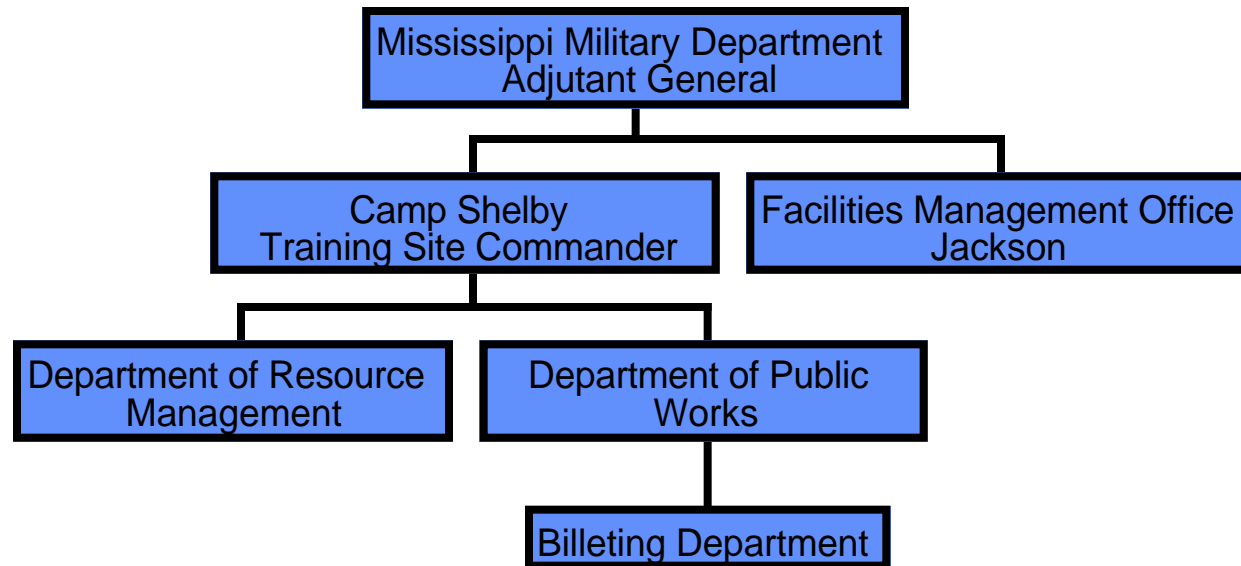
Organization of Camp Shelby's Administration

The Camp Shelby administration is organized into several departments, including the Department of Resource Management, the Department of Public Works, and the Billeting Office. The Department of Resource Management (DRM) is the financial and purchasing office for Camp Shelby. The Department of Public Works (DPW) is the maintenance, repair, and minor construction office for Camp Shelby. The Billeting Office is responsible for managing housing assets at Camp Shelby. These departments fall under the Installation Support Unit (ISU), the unit which is responsible for the organization and administration of Camp Shelby. The Commander of the Installation Support Unit reports directly to the Adjutant General. (See Exhibit 1, page 5, for an organization chart.)

Camp Shelby Organization

Mississippi Military Department - Camp Shelby Organization

August 1, 1997



Source: Military Department documents. Note: the Camp Shelby organization is simplified for use in this report. There are many other departments and organizations under Camp Shelby.

Management of Camp Shelby Funds

The Camp Shelby Department of Resource Management (DRM) is responsible for expenditure of the camp's state and federal appropriated funds. The Military Department's 1996 annual report lists FY 1996 state expenditures at \$25,288 and federal expenditures at \$25,018,383. State law and regulations, National Guard regulations, and internal regulations (as detailed in the "Camp Shelby Training Site Directorate of Resource Management Internal Operating Procedures Manual") govern financial management procedures for these funds.

However, some of Camp Shelby's funds fall outside of the system which governs appropriated funds. These "checkbook" funds outside the normal internal control system include the Activity Fund and the Officer's Club Board Fund. In FY 1996, approximately \$3,000 flowed through the Activity Fund and approximately \$12,000 flowed through the Officer's Club Board Fund.

Activity Fund

The Camp Shelby Activity Fund is generated by a percentage (fifteen percent) of soft drink machine sales on post. The purpose of the fund is to support activities such as conferences, open houses, and briefings for visitors to Camp Shelby. Mississippi National Guard Regulation 230-1-1 ("Armory/Activity Funds") determines the types of expenditures that are to be made from this fund.

According to this regulation, the Activity Fund Council--composed of representatives of departments at Camp Shelby and appointed by the Camp Shelby Commander--is to review and approve expenditures of the Activity Fund. The Treasurer, who is a designated member of the council, keeps all financial records and presents reports to the council on the financial status of the Activity Fund.

Officer's Club Board Fund

The Camp Shelby Officer's Club Board Fund is generated by the sale of memberships for the Camp Shelby Officer's Club. Proceeds from these sales are divided as follows: 75% is returned to the Officer's Club Operating Fund to subsidize the club's operation and the other 25% is spent by the Officer's Club Board. Members of the board are nominated by units and organizations which use Camp Shelby, including out-of-state units. The constitution and bylaws state that moneys from these funds "may be used for any purpose to support the individual club; provided such support is considered appropriate and approved by the board." The Treasurer, who is a designated member of the board, manages the fund, writes checks, and pays bills.

Conclusions

Internal Controls over Financial Assets

Elements of a good internal control system include: (1) segregation of duties, (2) authorization procedures, (3) adequate documentation to form a transaction trail, (4) physical controls to safeguard assets, (5) reconciliation of accounts, and (6) competent, trustworthy employees. PEER reviewed internal controls over Camp Shelby's financial assets to determine whether they complied with state law, Department of Finance and Administration purchasing regulations, Camp Shelby's Operating Procedures Manual, and the above-noted elements of a good internal control system.

The Mississippi Military Department has adequate internal controls in place to safeguard appropriated public funds at Camp Shelby. However, department management has not periodically reviewed implementation of these internal controls to prevent or detect violations, and as a result some expenditures may have violated federal, state, and National Guard regulations. Also, some non-appropriated public funds fall outside the normal internal controls system, which has led to misuse by Camp Shelby management.

Camp Shelby has adequate internal controls in place to safeguard appropriated funds. The Operating Procedures manual requires that separate individuals be assigned the key financial management duties to prevent any one individual from totally controlling public funds without any review or check by other individuals. To insure that only authorized transactions take place, Camp Shelby's procedures require management signatures on transactions and that all transactions be reviewed by the state's Department of Finance and Administration. State regulations require preparation of separate ledgers of accounts payable and receivable and the Camp Shelby Operating Procedures Manual also requires separate ledgers of purchase orders and payment vouchers; thus, these controls require adequate documentation to form a transaction trail. Camp Shelby's Department of Resource Management uses physical controls such as secured areas with limited access and computer security to insure that public assets are not compromised (see page 16). Camp Shelby's internal auditor reviews all transactions and reconciles Camp Shelby's accounts, and state and federal auditors audit selected state and federal portions of Camp Shelby's expenditures annually. Although no amount of controls is sufficient if the employees within the system are not trustworthy or competent in handling public funds, Camp Shelby's procedures require employees to be trained regarding internal controls and require ongoing professional education programs for employees and managers.

PEER also reviewed whether Camp Shelby's internal controls are being successfully implemented in a manner which protects public funds. Camp Shelby managers explain the internal controls to employees. Each DRM employee receives a copy of the Operating Procedures Manual, which describes the internal

controls and how they apply to each process. Camp Shelby management also structures the organization in such a way that the internal controls can easily be carried out. Purchasing, payroll, accounting, accounts receivable, and accounts payable are each performed by separate employees or groups of employees. No employee outside management shares responsibilities across the different functions. This organization of the department allows internal controls to function naturally as employees perform functions in separate areas. Camp Shelby managers also periodically review the Operating Procedures Manual and make revisions based on experiences with internal control problems.

Although Camp Shelby management has proper controls in place and has implemented them, the Military Department has not always executed internal controls, both at Camp Shelby and at the Military Department Headquarters in Jackson. The following section of the report includes a discussion of an area in which the Military Department has not properly executed internal controls over appropriated federal funds for a wetlands construction project.

Also, some Camp Shelby funds fall outside of the system of internal controls which governs the appropriated funds at Camp Shelby. These funds outside the normal internal control system are “checkbook” funds which have their own internal control systems--the Camp Shelby Activity Fund and the Camp Shelby Officer’s Club Board Fund. The State Auditor’s Office and PEER staff believe that these funds are public money because both funds are generated through the use of public facilities at Camp Shelby and both funds are operated by state employees for improvement of a state facility. In recognition of this fact, Mississippi National Guard Regulation 230-1-1 states:

All funds which may come into the possession of any member of the Mississippi National Guard. . .by subscription or donation or from concession/vending machines. . .are to be considered as public funds and will be accounted for as provided in this directive.

Thus these two funds are subject to the laws and regulations of the State of Mississippi regarding public funds. PEER determined that the Activity Fund had the necessary internal controls in place, but these controls were violated by management override (see page 14). The Officer’s Club Board Fund lacked the internal controls necessary for public funds (see pages 15 through 16).

Expenditures for Wetlands Construction Project

- *On a federally funded construction project at Camp Shelby, Mississippi Military Department Personnel exceeded cost ceilings, violated state purchasing regulations, poorly managed public funds, and may have violated federal, state, and National Guard regulations.*

In late 1995 the Military Department determined that Camp Shelby needed another training area for tanks and other armored vehicles and selected Training Area 28 as the site for construction. The United States Forest Service required that

crossings be built over wetlands areas to prevent vehicles from destroying the environment.

Summary of Project Costs

On July 1, 1996, the National Guard Bureau authorized Training Area 28 as a minor construction project with an approved funding limit of \$281,300 and an absolute cost ceiling of \$300,000. The Military Department put the Camp Shelby Department of Public Works (DPW) in charge of the project and the DPW used contractors providing construction equipment at an hourly rate to supplement the state employee work force of the DPW. This was a federally approved construction project financed by federal funds, but the funds went through the Mississippi Military Department's accounts with DFA. Thus, the project was subject to federal, state, and National Guard regulations and controls. Routinely, construction projects in the Military Department are bid out to contractors and managed through the Facilities Management Office (FMO) in Jackson. For this project, the DPW managed the project and was responsible for tracking costs, while the FMO was responsible for requesting funding from the National Guard Bureau.

The work order for the wetlands project was closed on July 31, 1996, and total costs were listed as \$337,467.20, over \$56,000 above the approved funding level. This did not include cost of the contractors' equipment rental, which was on separate work orders and totaled an additional \$290,260. In early 1997 the work in Training Area 28 was split into two separate projects and the Military Department spent an additional \$402,840.75 on work performed on the wetlands crossings. The total cost of all construction of wetlands crossings in Training Area 28 for 1996 and 1997 was \$1,030,567.95 (see Exhibit 2, page 10).

1996 Construction Activity on the Wetlands Project

Department of the Army regulations require that military construction projects over \$300,000 must be funded from the Military Construction Appropriation, which must receive direct Congressional approval (Pamphlet 420-11, "Project Definition and Work Classification" Item 1-6[5].c). The Director of the Camp Shelby Public Works Department determined, subsequent to the funding limit approval, that the project would cost \$442,080, over \$160,000 more than the funding level approved for the project. At this point the Military Department should have reported to the National Guard Bureau that the wetlands construction project might exceed approved cost limits and should be reconsidered as major construction (which would require Congressional approval). However, the Military Department did not report the project as exceeding cost limits.

Army regulations also require that "all work on a minor construction project must be halted as soon as it becomes apparent that the projected total funded cost of a project will exceed the statutory limitation [\$300,000 at the time of

Exhibit 2

Total Cost for Camp Shelby Wetlands Projects in 1996 and 1997

1996 Wetlands Crossings Costs

<u>Items</u>	<u>Costs</u>
Bush Construction	\$31,127.50
Materials and Rehab Labor*	337,467.20
ACT Construction	64,165.50
ACT Construction	102,806.00
Broome Construction	42,625.00
JSK Construction	49,536.00

<i>Total</i>	<u>\$627,727.20</u>
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1997 Wetlands Crossings Costs

<u>Items</u>	<u>Costs</u>
DPW Labor	\$21,787.50
Materials	264,892.50
ACT Construction	108,147.50
DPW Manhours	8,013.25

<i>Total</i>	<u>\$402,840.75</u>
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Grand Total for Wetlands Crossings:	\$1,030,567.95
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*Approved funding level was \$281,300.

SOURCE: Mississippi Military Department documents.

the project's initiation]." However, on July 31, 1996, the Director of Public Works closed the work order for the wetlands project which listed total costs as \$337,467.20. This did not include the cost of the contractor's equipment rental, which was on separate work orders and totaled an additional \$290,260. Despite this information, the Director of Public Works proceeded with the project.

In November 1996 the Mississippi Military Department Facilities Management Office Director suggested in a letter to the National Guard Bureau that the project in Training Area 28 be split into two separate projects--two "platoon lanes." Splitting the project would cause each "lane" to have a cost ceiling of \$500,000. (The absolute cost ceiling amount had been changed by Congress from \$300,000 to \$500,000 on December 2, 1996.) The letter stated that "a platoon lane is the complete and usable facility and should be used as the criteria for project identification."

Army regulations clearly prohibit splitting projects. DA Pamphlet 420-11, Item 1-7(a) states:

There are two principal considerations when performing work classification determinations: (1) Strict adherence to the prohibition against incrementing or fragmenting construction for the purpose of circumventing approval authority limitations; (2) An honest assessment of what constitutes a 'complete' and 'usable' facility(ies). . . .

Item 1-7(n) states:

Minor Construction Prohibitions: (1) No project will be subdivided in order to reduce costs for purposes of approval. . . . The following may constitute a statutory violation and is prohibited. . . . (b) The subdivision of a construction project to reduce costs to a level that meets a statutory limitation or the splitting or incrementing of the costs of a project to reduce costs below an approval threshold.

The Mississippi Military Department may have violated these federal regulations in the splitting of the wetlands project. The National Guard Bureau letter approving the split states: "The wetlands crossing construction is within the USPFO [United States Property and Fiscal Officer] approval authority if the project remains within the statutory limits for operations and maintenance [minor] construction." Since the project did not remain within the statutory limits for minor construction in 1996 the split should not have been suggested by the Military Department. Because the project was classified as minor construction and the cost ceilings were in place, the Military Department should have accounted for any funds expended on the project in 1996 and determined where the project stood in relation to the federal cost ceiling before proceeding with a request to the federal government for additional funding.

1997 Construction Activity on the Wetlands Project

On March 4, 1997, the United States Property and Fiscal Officer, or USPFO, (who is the federal liaison with the Mississippi National Guard) approved the new two platoon lane projects. The approved funding levels were \$214,964 for Lane 1 and \$215,769 for Lane 2 for a total of \$430,733. In the approval memo the Director of Facility Management states "Spending authority in excess of this amount is not authorized without prior written approval from this office. . . .In light of the change from the previous training area project to the 'lane' project it is imperative that accurate cost assignments be made to the new projects." However, during May and June 1997, Camp Shelby's Public Works department did not track costs separately for these two "lane" projects, nor did the Director of Facilities Management grant written approval for additional spending beyond \$430,733.

In both 1996 and 1997 the Camp Shelby Director of Public Works turned in project cost reports which were significantly lower than costs shown on work orders and purchase orders for those periods. The Federal Anti-Deficiency Act states:

Misclassification of construction as maintenance or repair and errors in defining minor construction projects may result in a statutory violation of the Anti-Deficiency Act. . . .Anti-deficiency statutes state that any officer or employee of the United States who commits governmental funds which have not been appropriated is in violation of anti deficiency statutes [and] is subject to appropriate administrative discipline, including suspension from duty without pay or removal (31 USC 1349 and 1518). Those convicted of a knowing and willful violation may be fined not more than \$5,000 or imprisoned for not more than 2 years, or both.

(Department of the Army Pamphlet 420-11, Item 1-5.a and b)

On May 1, 1997, the Camp Shelby Director of Public Works reported to the Facilities Management Office in Jackson that the wetlands construction project was complete and that the total cost was \$246,248.76, which was \$156,592 below the actual total cost. On July 17, 1997, the Facilities Management Office sent the Department of Public Works a memorandum which stated that the wetlands project appeared to have exceeded the \$500,000 statutory limitation without Congressional approval.

In summary, on a project which cost over \$1 million, the Mississippi Military Department failed to obtain proper approval for major construction and may have violated the Federal Anti-Deficiency Act. Military Department employees may also have violated Army regulations on project splitting by dividing the wetlands project after exceeding federal cost ceilings.

Possible State Purchasing Violation

The Military Department purchased the limestone needed for the wetlands project from the state Department of Transportation contract. According to state purchasing regulations, this contract is for maintenance and repair projects only and is not to be used for new construction or renovation. The wetlands project was classified as minor construction. The Camp Shelby DPW may have violated state purchasing regulations by purchasing materials off a state contract for maintenance and repair only and then using the materials for construction.

Lack of Contract Monitoring

During the wetlands project, the Military Department contracted with ACT Construction for hourly rental of heavy equipment. The department paid ACT \$255,047.50 during FY 1996 and \$108,147.50 during FY 1997 for equipment rental. The process by which the Military Department procured the contract with ACT complied with state law. However, Military Department personnel in charge of the project did not monitor the contractor to assure that all work was performed for the state that was charged at an hourly rate.

According to Camp Shelby employees, the Director of Public Works instructed his staff not to monitor the time worked by contractors billing the state at an hourly rate for equipment rental. Prior to June 12, 1997, ACT Construction kept its own time sheets while billing the state ten to twelve hours per day for up to ten pieces of equipment per day. Due to the potential for abuse, any contractor billing the Military Department approximately \$5000 per day should have been monitored by Military Department personnel. Since ACT time sheets show ten to twelve hours per day even on days when the National Weather Service reports over two inches of rain in the Hattiesburg area, ACT may have billed the state for time which it did not work. Due to the Director's instructions to his staff not to monitor ACT's time worked, it is impossible to verify whether ACT worked all the hours it billed the Military Department. Upon discovery in June 1997 that expenditures for the rental contract exceeded the amount of the purchase order, the Director directed his staff to begin monitoring ACT's work. (The Camp Shelby Director of Public Works has also failed to disclose outside income as required by federal law; see related conclusion on page 20).

During the period ACT monitored its own time, approximately 38% of the work was completed on the project and ACT billed the state for \$100,028. During the period after June 12, 1997, when state employees tracked ACT's time, nearly 62% of the project was completed and ACT billed the state for \$8,119.50. Even when considering factors such as: most of the materials were hauled by ACT dump trucks at the beginning of the project and the crossings ACT worked on at the beginning were wider and more difficult, the difference in costs once state employees began monitoring the contractor costs is very large.

A report of an audit (dated September 9, 1997) of the wetlands project by the federal auditors in the United States Property and Fiscal Office stated, "Internal

controls were inadequate in that management could not provide reasonable assurance that funds, property and other assets were safeguarded against mismanagement or that expenditures were properly accounted for and recorded.”

The effect of this lack of monitoring is that the Military Department poorly managed public funds, possibly expending much more than necessary for equipment rental. (These amounts already were being spent in excess of the amount approved for the construction project.)

Expenditures of Non-Appropriated “Checkbook” Funds

- *During 1996 and 1997, Military Department personnel made inappropriate expenditures of \$3,992.42 from “checkbook” accounts and possibly violated state law and National Guard regulations.*

Activity Fund: Inappropriate Expenditures

As noted on page 6, expenditures from the Camp Shelby Activity Fund are governed by Mississippi National Guard regulations. These funds fall outside the normal internal control system for Camp Shelby’s appropriated state and federal funds and have their own internal control systems, which are not as stringent as the controls for appropriated funds. However, Regulation 230-1-1 (“Armory/Activity Funds”) requires Activity Fund Council approval of expenditures and is very specific on what kinds of purchases are authorized and what kinds of purchases are unauthorized.

In 1996 the Camp Shelby Training Site Commander directed the Activity Fund Treasurer to spend up to \$500 from the Activity Fund for Christmas decorations for the White House (the Camp Shelby residence of the Adjutant General). The Commander made purchases totaling \$362.50 for Christmas decorations and poinsettias. The Activity Fund Council did not approve these expenditures and the expenditures did not comply with Activity Fund regulations, which state that “flower arrangements [and] social events” are not authorized expenditures of the Activity Fund.

In 1996 the Commander ordered the fund’s Treasurer to make \$1,021.91 in other expenditures from the Activity Fund for social events, including \$500 for an invitation-only party at the White House to celebrate Camp Shelby’s eightieth birthday. During 1996 and 1997, unauthorized expenditures from the Activity Fund for 1996 and 1997 totaled \$1,384.41. The Activity Fund Council did not approve these expenditures and the nature of the purchases violated Activity Fund regulations regarding authorized and unauthorized expenditures.

The effect of these actions is that \$1,384.41 in public funds from the Activity Fund which should have been used for support of conferences, open houses, and visitors’ briefings has been used for other, unauthorized purposes.

Officer's Club Board Fund: Lack of Internal Controls and Questionable Expenditures

Lack of Internal Controls-As noted on page 6, the Camp Shelby Officer's Club Board Fund is generated by sale of memberships to the Officer's Club and proceeds are to be spent to subsidize the club's operation and to finance the operation of the fund. Camp Shelby managers were aware that the fund consisted of public moneys because at a meeting on August 24, 1994, of the Officer's Club Board, the Camp Shelby Training Site Commander discussed "how that the officer club was now a state-operated entity and would have to conform to all state laws." The Adjutant General delegated responsibility for ensuring that the club conformed to all state laws to the Training Site Commander.

However, when PEER inquired, the Officer's Club Fund Treasurer did not have a copy of the constitution and bylaws of the Officer's Club Board which describes how the club shall operate and how money should be spent, did not know that this regulation existed, and was following the orders of individual board members in regard to spending. The only control over expenditures for this fund was that the full board was to vote to approve all expenditures exceeding \$500. The Officer's Club Board has not met in over a year, a condition which leaves the Treasurer at the disposal of certain members of the board who are of a higher military rank and who advise him on how the funds are to be spent. These individuals are ordering expenditures, which is a function the board as a whole should be performing.

Questionable Expenditures-Subsequent to the above-noted discussion at the August 1994 meeting of the board, PEER found that this fund was used to purchase liquor for events held at the White House for public relations purposes. From October 1994 until July 1997, the fund treasurer (at the direction of Camp Shelby managers who served on the board of the Officers' Club Fund) expended at least \$2,608.01 from the Officer's Club Board Fund on liquor for White House social events.

All state funds are subject to oversight by the Department of Finance and Administration (DFA). MISS. CODE ANN. Section 31-7-3 requires DFA to "promote efficiency and economy in the purchase of commodities by the agencies of the state." Although revenues of the Officer's Club Board Fund are not appropriated, PEER considers this money to be public funds for the reasons stated on page 8. State law does not expressly prohibit the purchase of liquor with public funds. However, the DFA Office of Purchasing and Travel's standard for appropriate purchases is that they must further the legitimate government purpose of an agency. PEER questions whether the use of public funds to purchase liquor furthers the Military Department's purpose of operating training facilities and providing military personnel in time of national or state defense.

At least one purchase of liquor from the fund on October 17, 1994, totaling \$715.89, violated MISS. CODE ANN. Section 31-7-13, which (at the time of the purchase) stated that any commodities purchased between \$500 and \$5,000 must be procured from the lowest and best bidder from at least two written proposals.

PEER found no evidence in Officer's Club Board files of two written proposals or that the entire board had voted on the purchase (an act required by fund regulations for any purchase exceeding \$500).

The effect of this lack of internal controls, questionable expenditure of public funds, and failure to track the spending of public funds is that the Military Department had fewer resources available for legitimate needs.

Internal Controls over Inventory and Physical Assets

Camp Shelby implements adequate controls over its inventory and physical assets to assure that property purchased with public funds is secure and being used for its intended purpose.

Camp Shelby has \$628,343 of state inventory and over \$1 million in federal property on base. Inventory control standards for state property are set by the State Auditor's Office and National Guard regulations. Federal property held by the Mississippi National Guard is covered under Army regulations.

The State Auditor's *Property Officer's Manual* requires that an agency: (1) maintain a complete and current inventory of each property item over \$500, unless the item falls into a list of eighteen specific groups (weapons, cellular telephones, televisions, etc.), which must be maintained on an inventory list regardless of price; (2) label all primary inventory items; (3) provide an inventory list to the State Auditor's Office; (4) perform an annual internal audit of all property; and (5) assist the State Auditor in performing an external inventory of all state property. Each year, the State Auditor's Office performs a complete property inventory of state property at Camp Shelby and federal auditors annually audit federal property. Mississippi Military Department personnel also conduct internal inventory checks.

Camp Shelby personnel maintain adequate control over physical assets and perform the inventories necessary to safeguard state and federal property. Under these regulations property is issued down to the individual user or organization so that responsibility for property can be maintained. All Camp Shelby inventories are computerized and all Camp Shelby property is clearly marked and bar coded. Property control personnel can scan items' bar codes in the process of performing an inventory to increase efficiency and decrease occurrence of error.

Camp Shelby also has large amounts of federal property under state control. Federal property is controlled by tighter standards than state property. All federal property must be signed for down to the individual user, while state property must be only signed for at the agency or department level. This federal property is also well managed and is inventoried by the auditors from the United States Property and Fiscal Office.

The effect of good property control at Camp Shelby is that personnel at Camp Shelby understand that property control is important and take it seriously. Despite the large amount of state and federal property at Camp Shelby, very little property is discovered missing during the many inventories which take place on base.

Use of Base Housing

Although most base housing at Camp Shelby is used for its intended public purpose, Camp Shelby managers have allowed certain housing to be used for private purposes without providing adequate reimbursement to the state.

Camp Shelby has three forms of state-owned base housing: the White House, Lake Walker cabins, and officer housing. In addition to Military Department personnel, the State Auditor's Office is responsible for auditing the use and reimbursement for state-owned housing to ensure its proper use, as federal auditors do for federally-owned facilities located at Camp Shelby.

White House

The White House, a building listed on the National Register of Historic Places, is the housing quarters and offices of the Adjutant General, Assistant Adjutant General, and the Chief of Staff and their guests during periods of Annual Training. The White House also functions as a site for meetings and social events relating to Camp Shelby. The written regulation governing the use of the White House states that only the Adjutant General can authorize use of the White House during non-Annual Training periods.

The regulation regarding use of the White House does not specifically address the Adjutant General's (or other personnel's) use of the facility for personal reasons. In December 1996 the Adjutant General conducted official business at Camp Shelby and remained at the White House during the Christmas holidays. He also rented a house (the Senior Officer's Quarters) and two guest cabins at Lake Walker for his family to stay in during the holidays. The Adjutant General paid the state \$44 for two nights' use of the Senior Officer's Quarters and \$45 for one night's use for two cabins. Because the Senior Officer's Quarters rented by the Adjutant General is a federally maintained facility, those family members who lodged in the quarters are liable for "Identifiable Incremental Costs and Overhead Costs" (as required by Army Regulation "Transient Housing") and should reimburse the federal government for non-Army use of the quarters. According to federal auditors, the cost would be \$4 per night per building (above the basic rental rate) to cover utilities or other basic expenses.

Lake Walker Cabins

The six Lake Walker cabins are recreational facilities built and maintained by the Timber Fund. The cabins serve as VIP housing during the Annual Training period (May through August). The cabins are available for recreational use from September through April each year. The facilities are designed to be used by members of the Mississippi National Guard, with lowest ranking soldiers having priority of use. The policies for the Lake Walker cabins are covered in "Mississippi Military Department Policy on Lake Walker Cabins" and "Guest Rules for Lake Walker Cabins." Both of these documents are policy letters from the Adjutant General. PEER reviewed records of cabin use and determined that the policy of lowest ranking soldiers having priority is being implemented.

Officer Housing (Quonset Huts)

No regulations cover the use of the two Quonset huts used for officer housing. These two Quonset huts were formerly on the federally maintained building list, but were removed in January 1996. Once the buildings were removed from the federal list, the federal government no longer monitored or audited their use. Camp Shelby management is responsible for this state-owned housing. Since these huts are state, not federal, property, they are not covered by the Army regulation on Transient Housing. According to the Camp Shelby Billeting Officer, the intended purpose of the buildings is to provide temporary rental housing for officers on base when other officer houses are full.

The Logistics Officer for Camp Shelby (formerly the Billeting Officer) lives in one of the Quonset huts full time. No other full-time employee at Camp Shelby receives on-base housing. The Logistics Officer pays \$4 rent per day to the state for a thirty-one-day rate of \$124. The average monthly utility bill for this facility is \$148, paid for by the Timber Fund, with a monthly loss to the fund of \$24. If the Logistics Officer were required to pay the \$7 per day rent charged to any officer renting the identical Quonset hut next door, the monthly rate would be \$217, and the Timber Fund would realize a net gain of \$69 per month. The current annual loss to the state is \$288, but if the rent were increased to \$7 per day the state would gain \$828 annually. (The Quonset hut next door is included in average utility costs but was only used seven days in a six-month period, so its utility cost is negligible compared to that used by the Logistics Officer.)

The Logistics Officer is benefiting financially from living in the Quonset hut by paying only \$124 per month, while the state is losing money on utilities and is not receiving any money to offset the cost of maintenance or use of the facility. Camp Shelby does receive a benefit from having this officer on post--a senior officer is available at all times. However, the management of the Military Department should determine if this benefit is worth the loss in rental fees and utility costs created by the Logistics Officer's presence.

The Logistics Officer position does not require this officer to live on post, so his use of public facilities at a discounted rate is clearly a questionable benefit.

While this officer was the Billeting Officer, he would have been in a position to set the rental rate for the Quonset hut he was moving into in order to insure that he got the best deal possible. If this officer had anything at all to do with setting the low rental rate for the Quonset hut and then renting the space, he could be guilty of using his office to provide a pecuniary benefit to himself, a violation of MISS. CODE ANN. Section 25-4-105-1. Also, because this officer's position does not require him to live on post, the housing provided by Camp Shelby is taxable income under Internal Revenue Code Section 119. The amount of taxable income should be the fair market value of the housing minus the rent paid by the employee.

Personnel Management

Camp Shelby management adheres to Military Department regulations concerning the assignment, promotion, and appraisal of employees and the use of the dual employment system.

Several citizen complaints alleged that the Military Department was not following regulations regarding the assignment, promotion, and appraisal of state employees at Camp Shelby and also that the dual employment system was being abused.

Personnel policies for the state employees of the Military Department are covered in the *Comprehensive Supervisory/State Employee Manual*, which details processes the Military Department uses in assignment or selection of employees for positions, the promotion of employees to vacant positions, and the appraisal of state employees' work performance. While Military Department employees are non-state service employees and are not covered by the regulations of the State Personnel Board, the regulations and procedures used by the Military Department are similar to those used by the State Personnel Board.

PEER sampled records for recent assignments, promotions, and appraisals of Camp Shelby employees and found no evidence of personnel actions which violated Military Department regulations. All assignments, selections, and promotions are handled through the State Employee Personnel Office in Jackson. No one at Camp Shelby has the authority to grant a raise or a promotion to a state employee. The policy of the current Adjutant General is that there are no non-competitive promotions in the Military Department. This policy allows employees to apply for vacant positions and compete for promotions and attempts to prevent favoritism.

Concerning the dual employment system, the use of dual employment is part of the nature of the Military Department. During the week, Military Department state employees serve in their positions as normal state employees. If they are members of the National Guard they are required to serve one weekend each month and two weeks of annual training in the summer. While serving on guard duty, these employees may perform the same duties as in their normal weekday jobs. This possibility of performing the same job at the same work station as a state employee and as a guard member could create confusion, especially if

personnel have different ranks in the two organizations, but should not present significant problems in Camp Shelby's personnel administration. PEER found no evidence that the dual employment system was being abused at Camp Shelby.

Related Conclusions

Employee's Failure to Disclose Outside Income as Required by Federal Law

The Camp Shelby Director of Public Works has performed construction services for compensation but has not reported this outside income on his federal Confidential Financial Disclosure Agreement, which is required for federal employees responsible for purchasing with government funds.

In addition to his work at Camp Shelby, the Director of Public Works, one of the managers of the camp's wetlands construction project works as a "consultant" building homes. As a federal employee who is responsible for supervising contractors, this officer is required to complete a Confidential Financial Disclosure Agreement. PEER acquired a copy of the Director's financial disclosure form through a Freedom of Information Act request. On the form, signed in November 1996, the Director of Public Works declares that he received no outside income and was not an officer in any company. According to interviews with county building officials, this officer operates a consulting firm called Advanced Building Systems (ABS) and in August 1996 this company built a home for another officer at Camp Shelby for a fee of \$5,000. Therefore, this officer failed to disclose this income on the federal financial disclosure form. The "Penalties" section of that form states:

Falsification of information or failure to file or report information required to be reported may subject you to disciplinary action by your employing agency or other authority. Knowing and willful falsification of information required to be reported may also subject you to criminal prosecution.

Possible Violation of Federal and State Law Regarding Revenues from Vending Machines

Camp Shelby's use of funds generated by vending machines for the Activity Fund may violate laws which require that vending revenues on state property be remitted to the Department of Rehabilitation Services.

As noted on page 6, the Camp Shelby Activity Fund is generated by a percentage of soft drink machine sales on post. MISS. CODE ANN. Section 43-3-93 (1972) states that for vending machines on state property, Vocational Rehabilitation for the Blind shall either (1) establish a vending operation run by a licensed blind person or (2) have the first opportunity to secure the revenues from such vending. The Randolph-Sheppard Act, the federal law which caused

passage of Section 43-3-93, has an exemption for vending revenues on military bases which are “by or for” the Post Exchange. Since the Activity Fund revenues are not related to the Post Exchange, this use of revenues could be a violation of Section 43-3-93.

Recommendations

Internal Controls over Financial Assets

1. The State Auditor and the Attorney General should review the Military Department's expenditure of \$3,992.42 (\$1,384.41 from the Activity Fund and \$2,608.01 from Officer's Club Fund) to determine whether these moneys were inappropriately expended and whether these funds should be recovered from Military Department personnel. Also, the State Auditor should perform a complete audit of the Camp Shelby Activity Fund and the Camp Shelby Officer's Club Board Fund to determine if any other expenditures were unauthorized or inappropriate and to review the implementation of internal controls.
2. The State Department of Rehabilitation Services should review Camp Shelby's contracts with local soft drink distributors and determine whether they violate the Randolph-Sheppard Act, which requires that vending revenues on public property be remitted to Vocational Rehabilitation for the Blind.
3. The Military Department should bring the Activity Fund and Officer's Club Board Fund under the stricter internal controls to which other public moneys at Camp Shelby are subjected. The Military Department should report to the Legislature on how it intends to change internal controls for these funds to insure that they are protected from further misuse.
4. The State Auditor and Attorney General should review the wetlands project expenditures to determine if Military Department personnel violated state, federal, or National Guard regulations in the course of this project. Also, the United States Property and Fiscal Office Auditor should perform a complete audit of the Camp Shelby wetlands project to determine the true costs of the project and to review adequacy of internal controls.
5. The Military Department should review its use of open contracts for equipment rental. The department should perform a needs analysis before entering into any further hourly service contracts. The department should develop policies requiring that these contracts are only used when absolutely necessary and not as a convenience or as a way to circumvent proper construction project procedures. Also, the Military Department should develop a policy to require Camp Shelby managers (and similar managers at other Military Department locations) responsible for supervising construction and maintenance contracts to monitor the time and performance of such contractors.
6. Camp Shelby managers should obtain competitive bids for major or minor construction projects and the department's Facilities Management Office in Jackson should manage these projects.

Use of Base Housing

7. The State Auditor should audit the Billeting Fund and determine whether any additional fees should be collected from individuals using public property for private purposes. Also, the Military Department should develop a written policy for the use of the White House and Quonset huts which covers acceptable use of these facilities.
8. If the Camp Shelby Logistics Officer is allowed to remain in the Quonset hut, the Military Department should determine whether it should increase the rental rate to insure that the state does not lose money on utilities and other costs.

Related Conclusions

9. The Adjutant General should mandate that all Military Department personnel required to do so accurately complete their federal Confidential Financial Disclosure Agreement forms.



Agency Response
DEPARTMENTS OF THE ARMY AND AIR FORCE
MISSISSIPPI NATIONAL GUARD
THE ADJUTANT GENERAL'S OFFICE
POST OFFICE BOX 5027
JACKSON, MISSISSIPPI 39296-5027
December 9, 1997

Dr. Max Arinder, Director
Joint Committee on Performance Evaluation and
Expenditure Review
Post Office Box 1204
Jackson, MS 39215

Dear Dr. Arinder:

This is our response to your recommendations contained in the Executive Summary of your review of the Mississippi Military Department's operations at Camp Shelby, Mississippi dated December 9, 1997.

With respect to recommendation number 1, we would welcome a complete audit by the State Auditor of the Camp Shelby Training Site activity fund and the Camp Shelby Officer's Club Board fund to determine if any expenditures were unauthorized or inappropriate and to review the implementation of our internal control procedures. However, we should note that twenty-five percent of the dues paid into the Officer's Club Board fund by its private members are not "public funds" as the control of these monies is retained by its members to be spent for any legitimate purpose they deem necessary.

Recommendation number 2 is well taken. However, we understand that Keesler Air Force Base, Columbus Air Force Base, Meridian Naval Air Station and other military installations across our state and the entire country occupied by both active component and national guard personnel who have post exchanges have been exempted from the requirements of the Randolph Sheppard Act for a number of reasons. One very important reason is that the use of the proceeds from vending sales is crucial to the successful operation of their morale, welfare, and recreation activities. Nevertheless, we will contact the State Department of Rehabilitation Services to ensure that we are operating in compliance with both state and federal law.

Mr. Max Arinder
December 9, 1997
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We concur with recommendation number 3. We will comply with your guidance to bring both the Activity Fund and the Officer's Board funds under more strict internal controls.

We concur with recommendation number 4 in part. In fact, the United States Property and Fiscal Officer (Federal Responsible Official) is currently auditing the Wetlands Project. If he has determined that violations have occurred, we will pursue remedial action under all applicable laws. In addition, USP&FO is currently performing and finalizing a comprehensive audit to ascertain true costs and review internal controls. Once we receive his recommendations we will implement corrective controls accordingly. We nonconcur with that portion of your recommendation requiring state officials to audit or otherwise investigate projects that federal officials are required to audit.

We concur with recommendation number 5. The Adjutant General's Central Contracting Office and the Facilities Maintenance Officer will develop operational guidance to require a needs analysis and establish parameters for the use of service contractors that relate specifically to construction and maintenance/repair activities. This will include provisions that will detail minimum requirements for monitoring time and performance, as well as approval of claims for services rendered.

We concur with recommendation number 6. The Facility Management Officer has assumed responsibility for all major and minor construction projects by the Military Department.

We nonconcur with recommendation number 7. In accordance with NGR (AR) 37-109, Transient Housing Management, the billeting fund is audited annually by the USPFO-MS. In addition, the billeting fund is subject to audit at any time by the Government Accounting Office, the Army Audit Agency or the Defense Contract Audit Agency. Also, this fund is reviewed annually by the Camp Shelby Directorate of Resource Management. To the extent that you recommend implementation of more stringent policies outlining the acceptable use of White House and Quonset Hut facilities, we concur and action has been initiated.

We concur with recommendation number 8. The rate for the quonset huts has already been raised to fair market value and the rental proceeds now covers the costs of utilities and minor repairs.

We concur with recommendation number 9. The Staff Judge Advocate has informed all applicable personnel to submit their Confidential Financial Disclosure Forms by memorandum dated October 1, 1997.

Mr. Max Arinder
December 9, 1997
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I trust that the foregoing has been responsive to your recommendations. If I or any of my staff may assist you further, please let me know.

Sincerely,

A handwritten signature in cursive script, reading "James H. Garner".

James H. Garner
Major General, Mississippi National Guard
The Adjutant General

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