

Report on the Secretary of State's Government Waste Hotline January – December 2004



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Secretary of State Audit Report

Summary

PURPOSE

The purpose of this report is to summarize activity reported through the Secretary of State's Government Waste hotline (hotline). Sections 177.170 and 177.180 of the *Oregon Revised Statutes* established this toll-free hotline for reporting waste, inefficiency or abuse by state agencies, state employees or persons under contract with state agencies. These allegations may be reported at 1-800-336-8218 or <http://fraud.oregon.gov>.

BACKGROUND

The Secretary of State through its Audits Division (division) conducts an initial investigation of each report of waste, inefficiency or abuse made by public employees and members of the public through the hotline. As required by statute, this report describes the number, nature and resolution of hotline calls received during the period January 1, 2004 through December 31, 2004. Also included is the origin of the calls received.

RESULTS IN BRIEF

The division received 277 calls in 2004. Seventy percent of the calls originated from concerned citizens. The nature of calls received varied from information requests to information sufficient to warrant an investigation. The resolution of calls included providing information, referrals, and audits or investigations. The number of calls resulting in an investigation remained consistent with the prior year.

This report also summarizes the results of six investigations conducted into improper activities by state employees and agencies. As a result of the investigations completed, we identified questioned costs of approximately \$840,000 in 2004. Total costs of over \$4.9 million have been identified since the inception of the hotline in 1995. These dollars represent questionable expenditures, monies not spent in accordance with applicable laws, or potential savings that could result from improved efficiencies or the elimination of waste or abuse.

NATIONAL FRAUD STATISTICS

According to the Association of Certified Fraud Examiners' (Association) 2004 Report to the Nation, organizations in the United States experienced \$660 billion in fraud losses in one year. The report also stated typical organizations lose 6 percent of their annual revenues to occupational fraud, which is defined as "the use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization's resources or assets." Furthermore, government organizations represented 15.8 percent of fraud cases with a median loss of \$37,500 per scheme.

According to the Association's report, confidential reporting mechanisms, such as the Government Waste Hotline, reported 50 percent less in median fraud losses than organizations without a confidential reporting mechanism.



**GOVERNMENT
WASTE HOTLINE**

1-800-336-8218

or

<http://fraud.oregon.gov>

Summary of Investigation of Allegations Into Improper Activities

Oregon Housing and Community Services Department: Unallowable Grant Expenses

The Oregon Housing and Community Services Department (department) received an allegation that the department had been billed for unallowable grant expenses by The Dalles Civic Auditorium. At that time, the department requested that the division determine whether expense reimbursements were allowable under grant provisions.

We found that The Dalles Civic Auditorium billed the department approximately \$30,000 in unallowable expenses. We also found that grant payment terms were not based on specific deliverables as suggested by contracting best practices.

Further details of this investigation can be found in Management Letter No. 914-2005-01-01.

Oregon University System: Review of Payroll Increases

The division received a call requesting an investigation into the pay increases granted by the Oregon University System during the statewide pay freeze.

As a result, the division conducted a compliance audit and found that some employees had received pay increases beginning after June 30, 2003. Many of the increases were the result of a collective bargaining agreement that delayed the pay freeze implementation for classified staff until September 16, 2003.

The audit identified 126 instances of raises we considered questionable because the raises did

not conform to the intent of the legislature as expressed to the Oregon University System. The audit identified approximately \$810,000 in increased costs for the biennium.

Further details of this audit can be found in Audit Report No. 2004-32 titled, *Oregon University System: Review of Payroll Increases*.

Commission on Children and Families: Personal Use of State Vehicle and Questioned Expenses

The division received an allegation that a manager of the Commission on Children and Families (commission) used a state owned vehicle to commute from her personal residence to commission headquarters and may have been reimbursed for inappropriate expenses.

We identified three instances in which the manager inappropriately used a state vehicle. We also identified some expense reimbursements that did not appear to have an appropriate business purpose or lacked appropriate approvals. In addition, we found documentation was not available for two vacation payouts made to this manager.

Further details of this investigation can be found in Management Letter No. 423-2004-03-01.

Oregon State Police: Inappropriate Use of State Vehicle and Unnecessary Overtime

The division received allegations regarding questionable overtime and reimbursement of expenses, false reporting of personal leave, personal use of a state vehicle, and failure to fulfill assigned work tasks by an Oregon State Police employee.

We found that expense reimbursements and personal leave reporting appeared to be appropriate. However, we substantiated allegations regarding the use of a state vehicle for personal purposes and some overtime awarded was unnecessary or should not have been awarded.

Finally, we were unable to substantiate the allegation of failure to fulfill assigned work tasks based on available documentation and interviews conducted.

Further details of this investigation can be found in Management Letter No. 257-2004-11-01.

Department of Administrative Services: Employee Use of State Owned Equipment

The division received an allegation that an employee at the Department of Administrative Services (department) was utilizing state owned computer equipment to run a private business.

We found that, although the individual had a private business, evidence did not support the use of the state owned equipment to run that business. However, we did identify instances of possible inappropriate use of state owned computer equipment. These included using non-state data on state owned equipment and allowing non-state employees to use state equipment for training purposes.

Further details of this investigation can be found in Management Letter No. 107-2004-09-01.

Department of Aviation: Use of Funds Not Clearly Documented

The division received an allegation that the Department of Aviation (department) wasted approximately \$25,000 in state money by co-sponsoring a party to celebrate the anniversary marking 100 years of flight.

Based on advice provided by the Department of Justice and limited investigation, the sponsorships of such events appeared to be within the department's legal authority as these events could be seen as ways to promote aviation in the state. However, we found that events sponsored by the department were not always clearly documented to show how they promoted aviation.

Further details of this investigation can be found in Management Letter No. 109-2004-10-01.

Hotline Activity January to December 2004

Hotline Background

The 1995 Legislature enacted legislation that became Oregon Revised Statute (ORS) Sections 177.170 and 177.180, mandating the Secretary of State (Secretary) to establish a toll-free telephone line for reporting waste, inefficiency or abuse by state agencies, state employees or persons under contract with state agencies. The law requires all state offices to display notice of the toll-free line, known as the Government Waste Hotline (hotline). The law also provides confidentiality for the identity of hotline callers, with the reported information remaining confidential unless the Secretary finds that waste, inefficiency or abuse has occurred. If the report is confirmed, the reported information remains confidential until the investigation is complete. The

identity of the caller is never disclosed without his or her permission.

For reports that may involve violations of the Oregon ethics law (ORS Chapter 244), the Secretary is to notify the Oregon Government Standards and Practices Commission. For reports that may involve criminal activity, the Secretary is to notify the appropriate law enforcement agency.

Upon completion of an investigation, the Secretary is to prepare a written determination. If the Secretary determines that officers or employees of another state agency or public body are involved in activities constituting waste, inefficiency or abuse, the Secretary shall notify and deliver the written determination to the state agency or public body and, if requested, to the person who made the report of waste, inefficiency or abuse.

In addition, the Secretary is required to prepare an annual report and submit it to the Legislative Assembly and appropriate interim committees. The report shall describe the number, nature and resolution of reports made through the hotline and shall identify savings resulting from improved efficiencies or the elimination of waste or abuse resulting from reports received and investigations conducted under this law. To meet this reporting requirement, we present summary level data on a calendar year basis.

As of January 2005, the hotline's toll-free number connects to a live operator to receive complaints 24 hours a day, 365 days a year, or interested parties can provide information via the Internet.

The Secretary through its Audits Division is responsible for managing reports received, conducting investigations, and reporting the results of work

performed as a result of reports received.

Review Process

All hotline messages are logged into a database and transmitted to the division. As auditors are available, the calls and website reports are reviewed to determine whether sufficient information was provided, whether a callback is possible or necessary, and whether the described concern can be investigated. The information collected is evaluated to determine if an audit or investigation should be conducted. For example, while some calls initiate audits or investigations, other calls are referred to agencies appropriate to address their concerns.

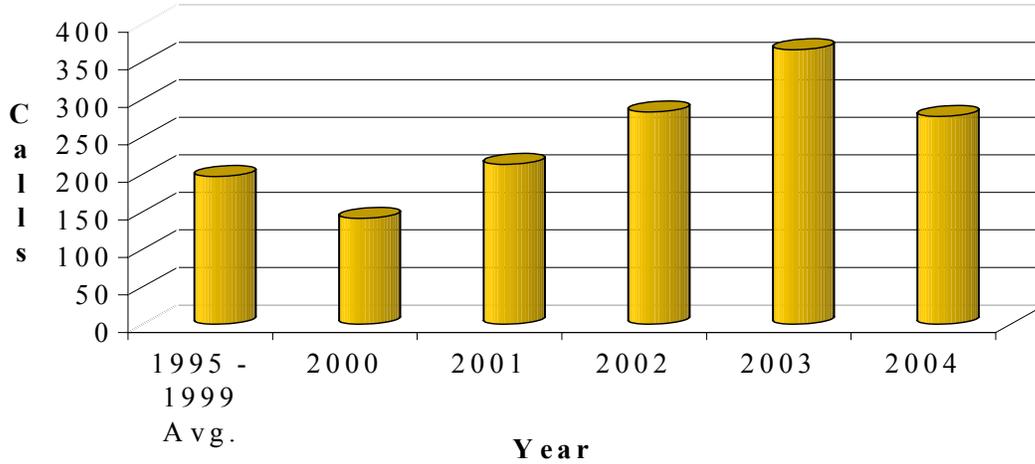
Number of Calls Received

As shown in Chart 1, the division received 277 calls in calendar year 2004. The calls received have

declined from the peak of 366 calls received in 2003. However, the 277 calls received in the current year

are above the five-year average of 256 calls per year.

Chart 1: Number of Calls Received



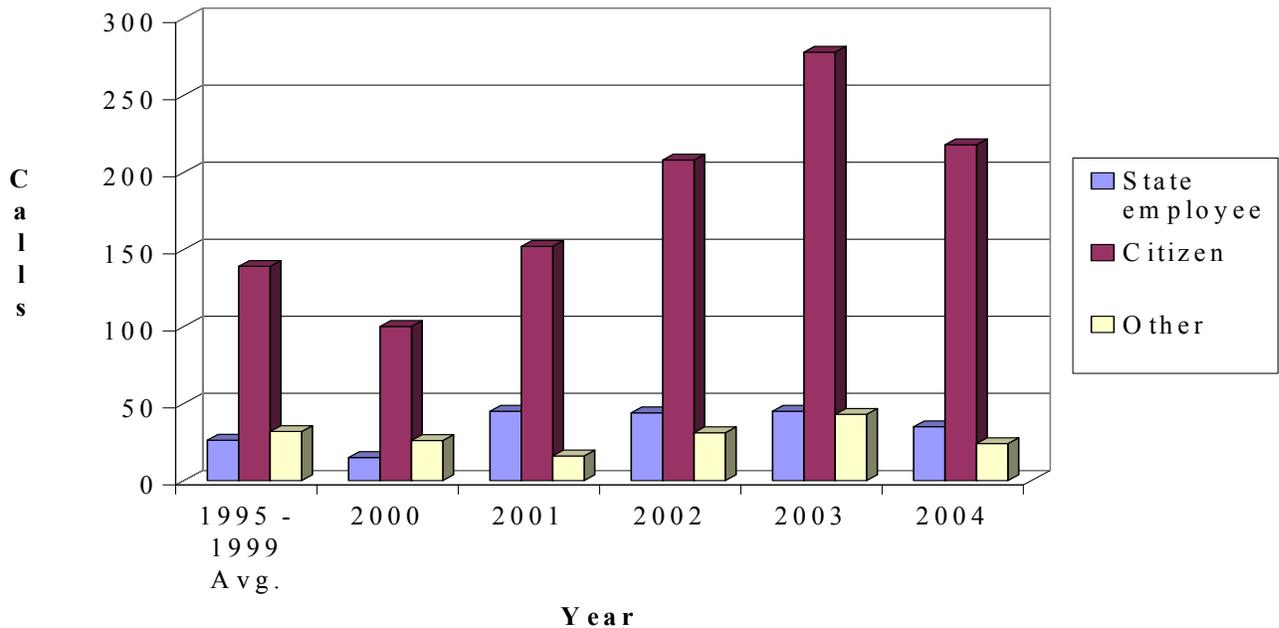
Call Origin

Chart 2 shows that the hotline continues to be a resource used by citizens of Oregon to report allegations. As the chart indicates, the majority of calls came from

citizens, with state employees and other unclassifiable types of calls accounting for the remainder of calls. During the last five years, greater than 70 percent of all calls received on the hotline originated from concerned citizens. Calls

designated as 'Other' included those that came from anonymous individuals, organization representatives, or did not fit within the other two categories.

Chart 2: Call Origin



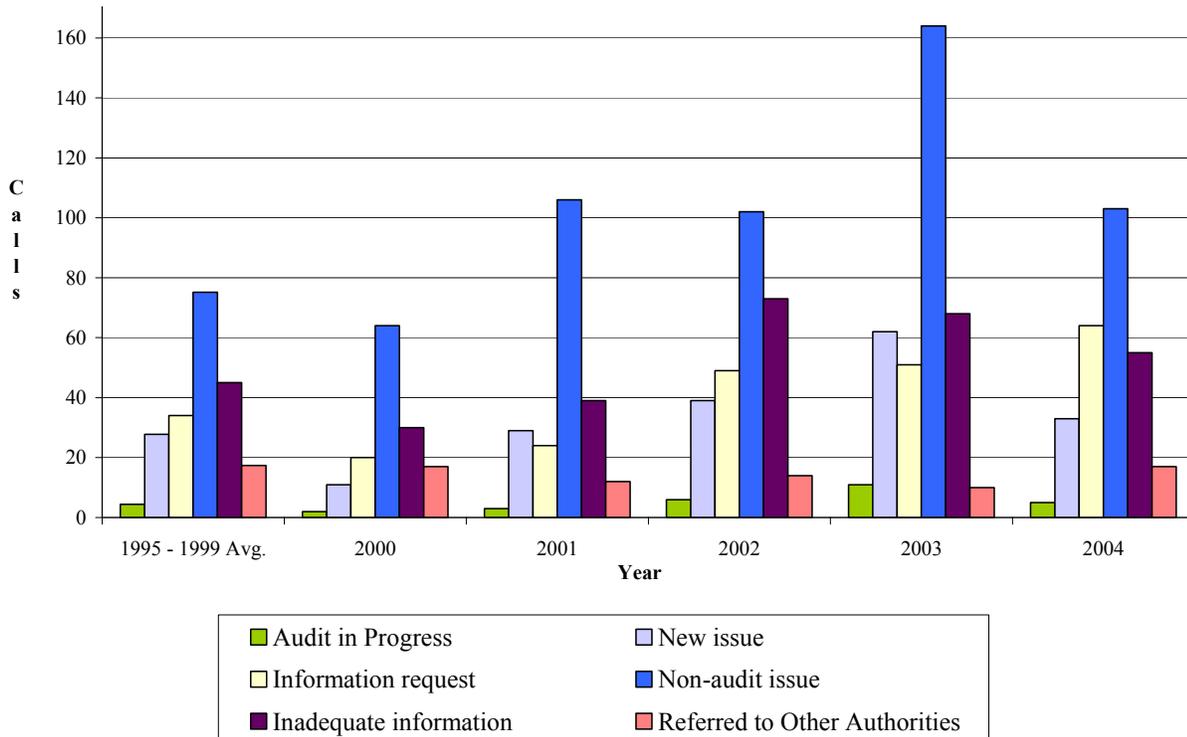
Nature of Calls Received

Chart 3 shows hotline calls related to a variety of topics, including new audit or investigation and information related to audits already in progress. Other calls requested information, such as copies of audit reports or where to address a

particular concern. Several of the calls were not investigative issues. For example, these calls included general complaints not auditable, a complaint of a personal nature, or a complaint involving a personal legal matter. Calls categorized as 'inadequate information' were generally anonymous calls with insufficient information or those in

which callers could not sufficiently provide specific information to allow or merit investigative action. Calls categorized as 'Referred to Other Authorities' represent calls related to federal government agencies or issues better handled by law enforcement agencies.

Chart 3: Nature of Calls Received



Call Resolution

After reviewing a hotline call, an auditor contacts the complainant, when possible, to obtain more detailed information. For anonymous calls, the division's ability to take action depends on the specificity and nature of information provided. Chart 4 describes, in broad categories, the follow-up activity taken.

The first category of hotline calls, 'Audit/Investigation', are calls triggering an audit or investigation that may result in a formal audit report or management letter advising a particular agency of the division's findings.

'Referral' calls experienced a significant increase due to an increase in calls when the caller was requesting information better handled by another state or local agency.

'Information provided' calls represent callers who received information such as copies of audit reports, management letters, or replies to inquiries.

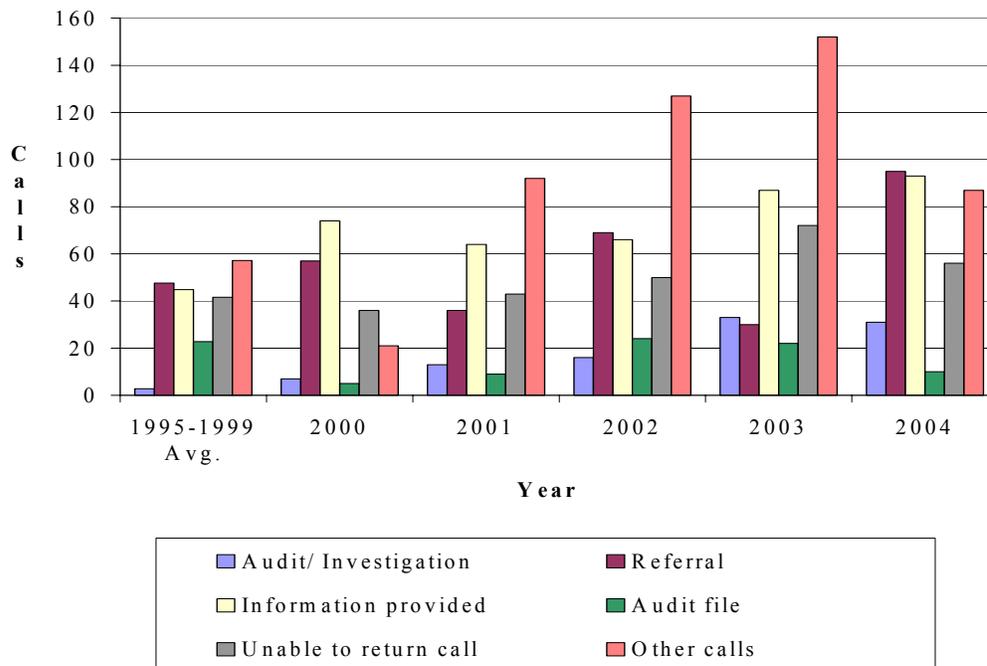
Calls recorded as 'Audit file' are calls not warranting an immediate investigation or referring to a larger audit topic that may be addressed in the future.

The division also received a number of calls for which the caller

did not leave a return number or the number given was disconnected. These types of calls are recorded under the category, 'Unable to return call'.

As shown in Chart 4, the number of hotline calls for 'other calls' for which no action was required remains near the top of the disposition categories for 2004. This category includes calls associated with inadequate information provided or non-audit issues such as those stating opinions or calls seeking personal legal advice.

Chart 4: Call Resolution



Questioned Costs

Table 1 summarizes investigations or audits completed during calendar year 2004, as well as associated questioned costs. Included are prior questioned costs

since inception of the hotline in January 1995. We identified questioned costs of approximately \$840,000 in 2004. Total costs of over \$4.9 million have been identified since the inception of the hotline. These dollars represent

questionable expenditures, monies not spent in accordance with applicable laws, or potential savings that could result from improved efficiencies or the elimination of waste or abuse.

Table 1: Questioned Costs Related to Hotline Calls

Report No.	Report Name	Comments/Recommendations	Questioned Costs
Management Letter No. 914-2005-01-01	Oregon Housing and Community Services Department: Unallowable Grant Expenses	Recommend the department obtain reimbursement from the auditorium for identified questionable expenses.	\$30,000
Audit Report No. 2004-32	Oregon University System: Review of Payroll Increases	Increased costs resulting from questionable raises during a legislative pay-freeze.	\$810,000
Management Letter No. 423-2004-03-01	Oregon Commission on Children and Families: Personal Use of State Vehicle and Inappropriate Expenses	Recommend the commission collect reimbursements made for inappropriate expenses.	\$132
Management Letter No. 257-2004-11-01	Oregon State Police: Inappropriate Use of State Vehicle and Unnecessary Overtime	Recommend the department take appropriate action to ensure overtime is necessary and appropriately awarded, and ensure state vehicles are used in accordance with department and state policy.	Not Quantified
Management Letter No. 107-2004-09-01	Department of Administrative Services: Employee Use of State Owned Equipment	Recommend that management take appropriate disciplinary action and develop and implement employee use policies and procedures.	Not Quantified
Management Letter No. 109-2004-10-01	Department of Aviation: Use of Funds Not Clearly Documented	Recommend the department clearly document the purpose of future events it sponsors.	Not Quantified
2004 Questioned Costs			\$840,132
1995 to 2003 Questioned Costs			\$4,130,132
Total Questioned Costs			\$4,970,264



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*The courtesies and cooperation extended by the officials and staff of
the departments was commendable and much appreciated.*

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