

# Oregon Secretary of State: Government Waste Hotline January – December 2006



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## Secretary of State Informational Report

### Summary

#### PURPOSE

The purpose of this report is to summarize activity reported through the Oregon Secretary of State Government Waste Hotline (hotline). In compliance with Oregon Revised Statute 177.180, we describe in this report the number, nature and resolution of hotline reports received from January 1, 2006, through December 31, 2006.

#### BACKGROUND

In 1995, the Legislative Assembly enacted law to establish the toll-free hotline for reporting waste, inefficiency or abuse by state agencies, state employees or persons under contract with state agencies. The law, promulgated in sections 177.170 and 177.180 of the *Oregon Revised Statutes*, requires an annual report to the Legislative Assembly. The Oregon Secretary of State, through its Audits Division (division), conducts an initial investigation of each report of waste, inefficiency or abuse made through the hotline by public employees and members of the public. In addition to reports received through the hotline, the division receives reports by various other means, such as postal mail, e-mail, telephone and walk-ins. We consider these reports confidential and treat them in the same manner as the hotline calls.

#### RESULTS IN BRIEF

The division received 459 reports in calendar year 2006. The nature of the reports varied from requests for information to reports that warranted an investigation. We resolved reports by providing requested information, referring callers to more appropriate contacts, conducting research, and performing audits or investigations. The number of reports requiring further research totaled 17 for 2006, of which 10 warranted an audit or investigation.

This report summarizes the results of five investigations that we completed in 2006. As a result of the investigations, we identified questioned costs of approximately \$1.3 million in 2006. Questioned costs of approximately \$6.4 million have been identified since the inception of the hotline in 1995. Those amounts 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.



**GOVERNMENT  
WASTE HOTLINE**

1-800-336-8218

or <http://fraud.oregon.gov>

## Summary of Investigations

The following summaries describe results of select audits and investigations we completed during 2006 in response to reports of waste, inefficiencies or abuse.

### Oregon Department of Transportation: Office of Project Delivery

The Audits Division received allegations that a manager of the Oregon Department of Transportation (ODOT) violated ODOT's Conflict of Interest Policy. In addition, it was alleged that questionable management decisions were made relating to contracting practices within the Oregon Department of Transportation's Office of Project Delivery (OPD), which was responsible for managing \$1.3 billion to improve the state's transportation infrastructure.

We substantiated the allegations that ODOT's Conflict of Interest Policy was violated and the allegations surrounding questionable management decisions relating to a request for proposal.

Specifically, we found that an ODOT manager violated ODOT's Conflict of Interest Policy by not avoiding actions that created the appearance of using one's position for personal gain or private benefit. The manager was employed by the same industry firm prior to and subsequent to being employed at ODOT. In an email to the manager, the firm's executive management requested that the ODOT manager "pave a smooth path in the approval process" for a \$5.3 million contract amendment between the firm and ODOT.

We also found that OPD management did not justify its discretionary action of allowing a request for proposal to go forward despite ODOT procurement managers and legal advice stating

that the document contained numerous flaws.

Further details of this investigation can be found in Report No. 2006-34.

### Department of Education: Sisters School District

In November 2004, the Department of Justice informed the Audits Division of an allegation that Sisters School District (district) was over-billing the Oregon Department of Education for State School Fund (SSF) dollars. The district allegedly inappropriately claimed private parochial school students at the Sunrise Christian School (Sunrise) as participants in the district's homeschool program. In addition, the district allegedly paid parents to tutor their own children.

We substantiated the allegation that the district inappropriately claimed and collected SSF dollars for its homeschool program. Specifically, we concluded that the district's homeschool program operated at Sunrise was not a legitimate program for which the district was entitled to SSF. We reached this conclusion for the following reasons:

- The overwhelming majority of students taught by the homeschool program "tutors" were Sunrise students. This is contrary to a 1973 Oregon Court of Appeals decision, which held that programs in which parochial school students are enrolled in public schools and also receive education from public school teachers in a parochial building violate the constitutional prohibition on use of public money to benefit a religious institution.
- Twelve homeschool tutors were employed concurrently as teachers by Sunrise.

- The district reported Sunrise hours of instruction as homeschool tutoring hours.
- A sample of parents of the homeschool students told us they were unaware that their children were participating in the homeschool program.

As a result of the inappropriate claims the district made during our audit period, the Department of Education distributed \$1.2 million in SSF to the district. The district paid Sunrise approximately \$357,000 in tutor salaries and benefits, which offset some of Sunrise's personnel costs.

We also found that the district used approximately \$51,000, which included SSF, to pay nine parents to tutor their own children at home.

Further details of this investigation can be found in Report No. 2006-35.

### Oregon Department of Transportation: Oregon Bridge Delivery Partners

The Audits Division received allegations in January 2005 that an Oregon Department of Transportation (ODOT) contractor, Oregon Bridge Delivery Partners (Bridge Partners), had engaged in questionable billing and contract practices and had made inappropriate contract expenditures.

Based on our investigation, we determined the allegations were not substantiated. However, we identified opportunities for ODOT to improve its contract management procedures to properly oversee payments made to Bridge Partners.

Specifically, we found that the department had not fully completed and implemented contract review policies and procedures. As a result, ODOT could not always ensure that invoices from Bridge Partners were complete, accurate

and in compliance with contract requirements. In addition, the contract did not clearly address pay rates or rate changes for Bridge Partners' employees. ODOT management indicated that pay rate increases were acceptable as long as they did not exceed the average hourly rate per an entire classification of employees. Because the contract was silent on this issue, however, Bridge Partners billed ODOT \$12,884 in excess of the average for one classification we reviewed.

Further details of this investigation can be found in Management Letter No. 730-2007-03-01.

### **Oregon Department of Transportation: Loss of Funds – Coos Bay Sign Crew**

In April 2005, the Oregon State Police (OSP) asked the Audits Division to quantify the loss of funds the Oregon Department of Transportation (ODOT) sustained as a result of potentially fraudulent billings initiated by a co-owner of a Coos Bay, Oregon, retail business and an employee of ODOT's Coos Bay sign crew.

We found that from August 2000 through September 2005, ODOT experienced losses totaling approximately \$47,000 in product costs and freight charges from billings that the business owner submitted to ODOT for items ODOT never received. The ODOT employee used his purchasing authority to approve most of those billings.

The employee resigned from state service on April 25, 2006. On February 2, 2007, the two men pled guilty to one count of aggravated theft in the first degree and were sentenced in Coos County Circuit Court to 90 days in jail and 36 months of probation. In addition, they were ordered to pay ODOT

approximately \$56,000 in restitution. That amount consisted of \$47,000 in fraudulent billings, reduced by approximately \$6,000 of recovered property, and a \$15,000 compensatory fine.

In addition to the \$47,000 loss, ODOT experienced losses estimated at approximately \$42,000 because it did not enforce state purchasing rules that require agencies to obtain competitive pricing when purchasing goods.

Further details of this investigation can be found in Report No. 2007-11.

### **Department of Human Services: Review of Small Purchase Order Transaction Systems Purchases**

In 2006, the Audits Division received an allegation regarding inappropriate use of a Small Purchase Order Transaction Systems (SPOTS) card by a Department of Human Services, Oregon State Hospital employee. Specifically, the employee allegedly bought food and personal items with state funds.

Our review of the hospital employee's SPOTS card purchases and supporting documentation from January 2005 through March 2006 found the employee purchased meals, coffee and movie theatre tickets, and paid bowling fees. Because the Department of Human Services had not implemented a 2005 audit recommendation to develop controls and guidelines on employee spending for hospital clients, however, we could not determine whether the employee's purchases were inappropriate.

Further details of this investigation can be found in Management Letter No. 100-2006-09-01.

## **Hotline Activity January to December 2006**

### **Hotline Background**

The 1995 Oregon Legislature enacted legislation that became *Oregon Revised Statutes* (ORS) Sections 177.170 and 177.180, mandating the Secretary of State (Secretary) to establish a toll-free telephone line, the Government Waste Hotline, for reporting waste, inefficiency or abuse by state agencies, state employees or persons under contract with state agencies. The Secretary, through its Audits Division, conducts an initial investigation of each report of waste, inefficiency or abuse made through the hotline by public employees and members of the public.

The law provides confidentiality for the identity of hotline callers, with the reported information remaining confidential unless we find that waste, inefficiency or abuse has occurred. In addition to reports received through the hotline, reports are received by various other means, such as postal mail, e-mail, telephone and walk-ins. We consider these additional reports confidential and treat them in the same manner as the hotline reports.

We are required to notify the Oregon Government Standards and Practices Commission for reports that may involve violations of the Oregon ethics law (ORS Chapter 244). In addition, we are to notify the appropriate law enforcement agency for reports that may involve criminal activity.

Upon completion of an investigation, we prepare a written report. If officers or employees of another state agency or public body are involved in activities constituting waste, inefficiency or abuse, we notify and deliver the written report to the state agency or public body and, if requested, to the

person who made the report of waste, inefficiency or abuse.

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

The hotline’s toll-free number of 1-800-336-8218 connects callers to professional operators available to receive complaints 24 hours a day. Concerned individuals can also report on the Internet at <http://fraud.oregon.gov>.

### Review Process

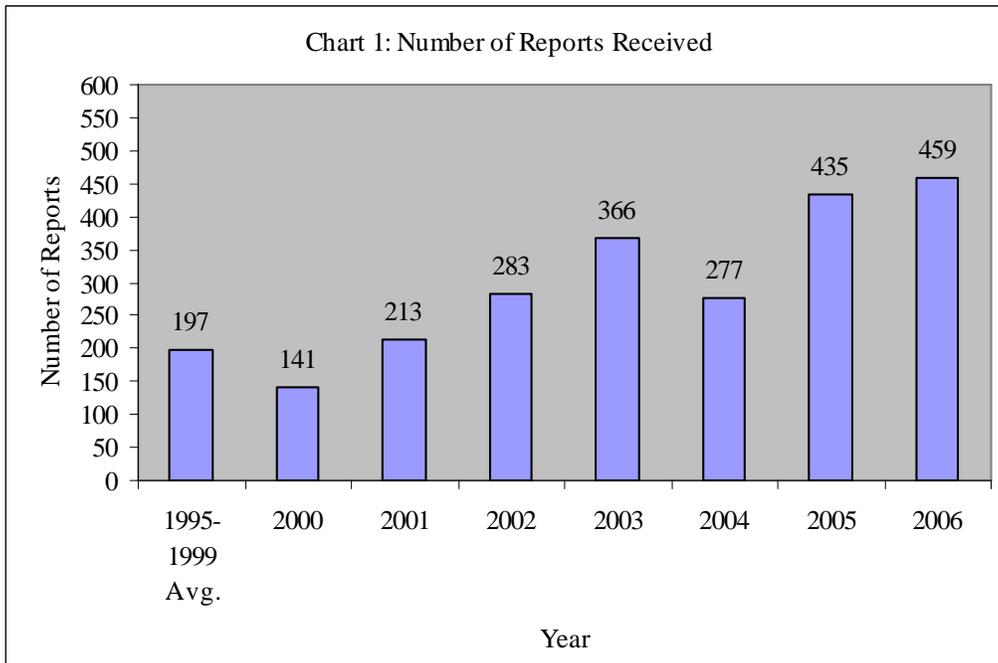
All hotline reports are logged into a database available to selected staff of the Audits Division. We review the reports on an on-going basis to determine whether sufficient information was provided, a callback is necessary or possible, and whether the described concerns can and should be investigated. For example, while some reports warrant audits or investigations, other reports do not involve waste, inefficiency or abuse of state funds and, therefore, are outside our authority under the hotline statutes. For those reports that we are unable to investigate, we try to provide callers with alternative contacts for reporting their concerns.

### Origin of Reports Received

Eighty-seven percent of the reports received in calendar year 2006 came through the hotline, while the remainder of the reports came through online reporting, electronic mail, postal mail, faxes, and walk-ins. Concerned citizens as well as state employees made the reports.

### Number of Reports Received

As shown in Chart 1, we received 459 reports in calendar year 2006. The chart shows a steady increase in reports since the hotline’s inception in 1995.



## Nature of Reports Received

The nature of hotline reports received varied from requests for information to reports that warranted an investigation.

Chart 2 shows hotline reports related to a variety of topics as described below:

*Procedural and Informational Matters* (41 percent) relate to policy clarification, frustration with procedures, and requests for information.

*Callbacks* (25 percent) represent callers providing additional information to a report they previously made to the hotline or requesting information about the status of their reports.

*Fraud, Theft or Kickback* (11 percent) issues relate to fraud, false claims, embezzlement, theft, false expense reports, bribery, and corrupt practices.

*Other* (7 percent) relates to workplace safety, quality of service, privacy, security, and misuse of property issues.

*Management and Workplace Practices* (6 percent) relate to noncompliance with policies and procedures,

favoritism, conflicts of interest, job performance issues, payroll problems, improperly advertised positions, and disagreements with policies and procedures.

*Financial Management/Business Practice/Billing* (5 percent) relates to accounting practices, tax issues, cost reporting issues, contracts and agreements, vendor issues, over billing, and documentation issues.

*Work Environment Issues* (5 percent) relate to sexual harassment, unethical or improper behavior, unfair treatment, wrongful termination, discrimination, disagreement with disciplinary action, and other harassment issues.

## Report Resolutions

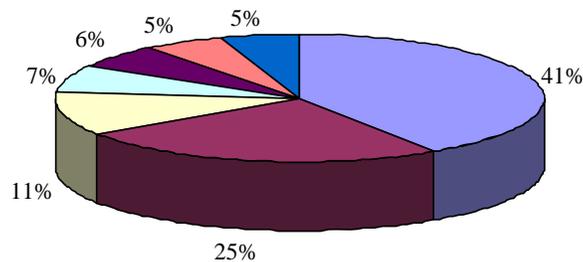
Our ability to take action on a report depends on the specificity and nature of information provided. If callers provide contact information, division staff may contact them to obtain additional information if necessary.

We resolved reports by providing requested information, referring callers to more appropriate contacts

for reporting their concerns, conducting research, and performing audits or investigations. The following information describes how we resolved the 459 reports received during calendar year 2006.

- Ten reports warranted an audit or investigation that has resulted in or may result in a formal audit report or management letter.
- Seven reports required further research, but we subsequently determined the allegations were not substantiated.
- Four hundred and forty-two reports were closed after our preliminary investigation determined the reports were requests for information; did not involve waste, inefficiency, or abuse of state funds; should be referred to a more appropriate contact; or lacked sufficient information and the caller was unreachable.

Chart 2: Nature of Calls Received



■	Procedural and Informational Matters (41%)
■	Callbacks (25%)
■	Fraud, Theft or Kickback Issues (11%)
■	Other (7%)
■	Management and Workplace Practices (6%)
■	Financial Management/Business Practice/Billing (5%)
■	Work Environment Issues (5%)

## Questioned Costs

Table 1 summarizes investigations and audits completed during calendar year 2006, as well as associated questioned costs. We identified questioned costs of approximately \$1,301,884 in 2006. Questioned costs of over \$6.4 million have been identified since the inception of the hotline in 1995. Those costs 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 Reports**

Report No.	Report Name	Comments/Recommendations	Questioned Costs
Audit Report No. 2006-34	Oregon Department of Transportation: Office of Project Delivery Investigation	We recommended ODOT management enforce its conflict of interest policy and reevaluate contracts previously awarded to an industry firm to ensure compliance with fair contracting practices.	\$0
Audit Report No. 2006-35	Department of Education: Sisters School District Investigation	We recommended the department seek reimbursement of the State School Fund (SSF) dollars distributed to Sisters School District and develop policies and procedures for reviewing district homeschool programs to ensure they are entitled to SSF.	\$1,200,000
Management Letter No. 730-2007-03-01	Oregon Department of Transportation: Bridge Delivery Partners	We recommended management develop, document, and implement contracting policies and procedures that (1) prescribe the invoice review and approval process; (2) ensure contracts are in place and approved prior to making contract payments; and (3) ensure contractor invoices are accompanied by adequate supporting documentation prior to payment.	\$12,884
Audit Report No. 2007-11	Oregon Department of Transportation: Loss of Funds – Coos Bay Sign Crew	We recommended ODOT implement controls to strengthen its fraud prevention efforts and improve its purchasing activities. Specifically, separate the responsibilities for initiating, receiving, and approving purchases and controlling inventory of goods at the Coos Bay sign crew location. We also recommended compliance with state purchasing rules to obtain goods at competitive prices.	\$89,000
Management Letter No. 100-2006-09-01	Department of Human Services: Review of Small Purchase Order Transaction System Purchases	We recommended hospital management implement limits and guidelines on employee spending, including purchases for patient outings, and develop and implement internal controls intended to prevent, detect, and deter unauthorized or inappropriate purchases.	\$0
<b>2006 Questioned Costs</b>			<b>\$1,301,884</b>
<b>1995 through 2005 Questioned Costs</b>			<b>\$5,117,264</b>
<b>Total Questioned Costs</b>			<b>\$6,419,148</b>



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

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