



Secretary of State Informational Report

Oregon Secretary of State: Government Waste Hotline January–December 2008

Summary

This report summarizes activity reported through the Oregon Secretary of State Government Waste Hotline (hotline) in calendar year 2008. As required by Oregon Revised Statute 177.180, we describe the number, nature and resolution of hotline reports received during the year.

The toll-free hotline was established in 1995 for public employees and members of the public to report waste, inefficiency or abuse of state funds and resources by state agencies, state employees or persons under contract with state agencies. In addition to a toll-free telephone line, hotline reports may be submitted through other methods such as on-line reporting, postal mail, e-mail, telephone calls directly to the Audits Division and walk-ins. The Oregon Secretary of State, Audits Division (division), conducts an initial investigation of each report made through the hotline and determines which reports will be investigated further.

The division received 362 reports in calendar year 2008. The nature of the reports varied from requests for information to reports that warranted further investigation. We resolved reports by providing requested information, referring callers to more appropriate contacts, conducting further research, and performing audits or investigations. The number of reports requiring further research totaled 37 for 2008, of which 19 remain open and may result in an audit or investigation.

This report summarizes the results of four investigations we completed in 2008. As a result of the investigations, we identified areas in which state agencies could strengthen controls and improve accountability. In addition, we have identified questioned costs of approximately \$6.6 million since the inception of the hotline in 1995. Those amounts represent misappropriated public and private funds, 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>

Hotline Activity January to December 2008

Hotline Background

The Government Waste Hotline was established in 1995 for public employees and members of the public to report waste, inefficiency or abuse by state agencies, state employees or persons under contract with state agencies. In addition to a toll-free telephone line, hotline reports may be submitted through such other methods as on-line reporting, postal mail, e-mail, telephone calls directly to the Audits Division and walk-ins.

The hotline's toll-free number (1-800-336-8218) connects callers to professional operators who receive reports 24 hours a day. Concerned individuals can also report on the Internet through the Secretary of State Audits Division's website at <http://fraud.oregon.gov>.

The Audits Division (division) conducts an initial investigation of each report of waste, inefficiency or abuse made through the hotline and determines which reports will be investigated further.

The law provides confidentiality for the identity of any person making a report under the hotline law (ORS 177.180). In addition, the reported information remains confidential unless we find that waste, inefficiency or abuse has occurred, in which case we must report the findings in writing.

We are required to notify the Oregon Government Ethics Commission if we find potential violations of the Oregon ethics law (ORS Chapter 244). We are also required to notify the appropriate law enforcement agency if we find potential criminal activity.

Upon completion of an investigation, we prepare a written report to the state agency or public body if officers, employees, or contractors of that state agency or public body were involved in activities constituting waste, inefficiency or abuse. If requested, we also provide a copy of the report to the person who contacted the hotline.

We are also required to prepare an annual report and submit it to the Legislative Assembly and appropriate interim committees. This 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 that resulted from hotline reports and investigations. To meet this reporting requirement, we present summary level data on a calendar year basis.

Review Process

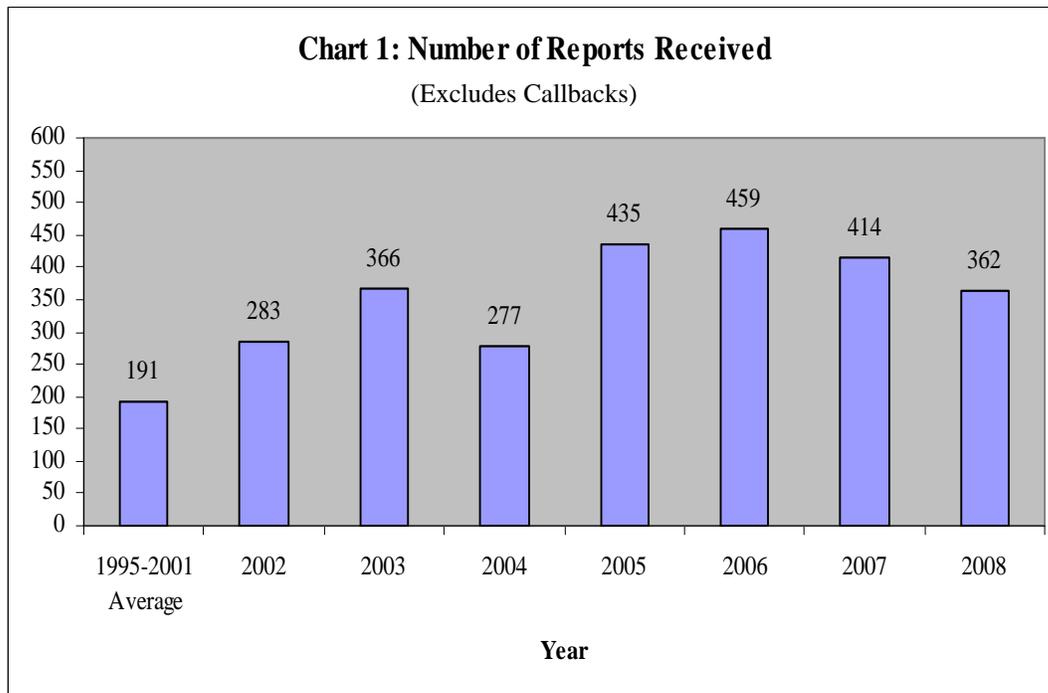
All hotline reports are logged into a database application available to selected staff of the division. We review the reports on an on-going basis to determine whether sufficient information was provided to investigate and whether the described concerns can and should be investigated. For example, while some reports warrant audits or investigations, other reports do not involve claims of 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 provide callers with alternative contacts for reporting their concerns.

Origin of Reports Received

Of the reports we received in calendar year 2008, 78 percent came through the hotline, while the remainder came through online reporting, electronic mail, postal mail, faxes, direct telephone calls and walk-ins. Concerned citizens as well as state employees made the reports.

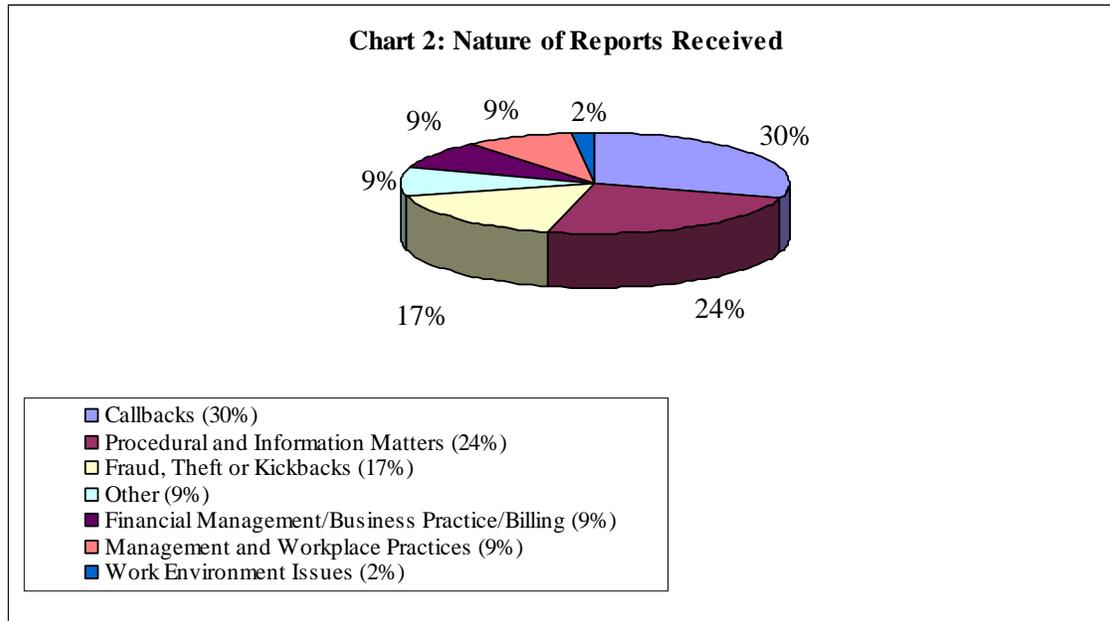
Number of Reports Received

We received 362 initial hotline reports in calendar year 2008. In addition, we received 152 callback reports. As shown in Chart 1, the number of hotline reports received peaked in 2006 and declined in the subsequent two years.



Nature of Reports Received

The hotline reports we received fell into the categories described below and shown in Chart 2.



Callbacks (30 percent) represent callers providing additional information about a report they previously made to the hotline or requesting information about the status of their reports.

Procedural and Information Matters (24 percent) relate to policy clarification, frustration with procedures, and requests for information.

Fraud, Theft or Kickback (17 percent) issues relate to fraud, false claims, embezzlement, theft, false expense reports, bribery, and corrupt practices.

Other (9 percent) relates to workplace safety, quality of service, privacy, security, and misuse of property issues.

Financial Management/Business Practice/Billing (9 percent) relates to accounting practices, tax issues, cost reporting issues, contracts and

agreements, vendor billing issues, and documentation issues.

Management and Workplace Practices (9 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.

Work Environment Issues (2 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. We are also able to communicate with anonymous callers through the database application.

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 describes how we resolved the 362 hotline reports we received during calendar year 2008.

- Nineteen reports remain open and may result in an audit or investigation.
- Eighteen reports required review to determine whether the described concerns could and should be investigated. For these reports, the allegations were not substantiated or we determined they did not involve state funds or resources. As a result, we did not identify

findings relating to the allegations and did not issue a report.

- Three hundred twenty-five reports were closed after we 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 the caller did not respond to our requests for additional information we needed to proceed.

Summary of Investigations

The following summarizes management letters and an audit report we issued for investigations we completed during 2008. The recommendations are included in Table 1 along with the associated questioned costs.

Department of Administrative Services: State Procurement Office Investigation

In October 2007, the Audits Division received allegations that the Oregon Department of Administrative Services (department), State Procurement Office, unfairly awarded the food supplies category of a contract for janitorial supplies, industrial paper and other services. The allegations involved the price list the department accepted from the winning bidder.

We substantiated parts of the allegation and found the sole proposer did not submit a dated manufacturer's list price as required by the Request for Proposals (RFP), but instead submitted an alternative price list that the department accepted. We found that the department did not appear to fully comply with the "responsive proposal" provision of the RFP when it accepted the alternative price list.

Further details of this investigation can be found in Secretary of State Audit Management Letter No. 107-2008-09-01.

Oregon State Police: Review of Selected Procurement and Contracting Practices

The Audits Division received a legislative request in October 2005 to review procurement practices of the Oregon State Police (department) and allegations in December 2006 that the department had not adequately managed its newly purchased fleet vehicles.

Based on our review, we identified opportunities for the department to improve its procurement processes and controls and substantiated the allegations. In general, we found the department had not implemented effective controls or developed policies and procedures to help ensure a sound purchasing process. We also found the department took over a year to place some patrol vehicles into service.

Further details of this investigation can be found in Secretary of State Audit Management Letter No. 257-2008-10-01.

Oregon Economic and Community Development Department: Port of Newport Grant

In May 2007, the Audits Division received an allegation that the Port of Newport (port) had misused a \$17,500 grant the Oregon Economic and Community Development Department (department) had awarded to the port.

We found the port spent at least part of the grant funds on information and activities to promote the port's capital

construction bond measure, an action that appears to have violated Oregon Statute. As a result, we questioned the department's decision to award funds for a purpose that could be construed as unlawful.

Further details of this investigation can be found in Secretary of State Audit Management Letter No. 123-2009-02-01.

Oregon Parks and Recreation Department: Loss of Funds Investigation and Internal Controls Review at the Oregon State Fair and Exposition Center

In October 2005, the Oregon Parks and Recreation Department (department) requested that the Audits Division review internal controls at the Oregon State Fair and Exposition Center (OSFEC) in preparation for its transfer to the department. Subsequently, in November 2005, we received allegations that an OSFEC employee, Debra Gorski, had diverted client payments to a personal bank account.

Our initial review substantiated the allegations of fraud and resulted in a joint investigation with the Oregon State Police. We determined that, from March 2001 through March 2006, Ms. Gorski diverted approximately \$78,000 in state funds and approximately \$16,000 in private funds. In January 2008, Ms. Gorski was convicted of three counts of first-degree aggravated theft and sentenced to 36 months in prison followed by 24 months of post-prison supervision. In addition, she was ordered to pay restitution for the funds she diverted.

Our audit of the OSFEC's internal controls disclosed that the OSFEC had not established sound accounting policies or program controls, which could have helped

prevent and detect
misappropriation of funds.

Further details of this audit can be
found in Secretary of State Audit
Report No. 2009-03.

Questioned Costs

Table 1 summarizes investigations and audits we completed during calendar year 2008, as well as associated questioned costs. Since the inception of the hotline in 1995, we have identified over \$6.6 million in questioned costs. These costs include misappropriated public and private funds, questionable expenditures, monies not spent in accordance with applicable laws, and potential savings that could result from improved efficiencies or the elimination of waste or abuse.

Table 1: 2008 Investigations and Associated Questioned Costs

Report No.	Report Name	Recommendations	Questioned Costs
Management Letter No. 107-2008-09-01	Department of Administrative Services: State Procurement Office Investigation	We recommended department management ensure it fully complies with RFPs when evaluating proposals in relation to mandatory requirements, and consider the effect that protests in one category of a multiple product RFP might have on other product categories.	\$0
Management Letter No. 257-2008-10-01	Oregon State Police: Review of Selected Procurement and Contracting Practices	We recommended department management: <ul style="list-style-type: none"> • establish formal procurement processes, complete with written delegation of expenditure authority, policies and procedures for complying with state purchasing rules, and controls for ensuring compliance with department policies and procedures; • develop and implement controls to avoid fragmentation and ensure a competitive purchasing process is used when required; • develop guidelines for determining when a formal contract is required for evaluating bids; and • evaluate its process for placing patrol vehicles into service, and establish meaningful performance measures to be used in monitoring, evaluating and improving its implementation process. 	\$2,900
Management Letter No. 123-2009-02-01	Oregon Economic and Community Development Department: Port of Newport Grant	We recommended department management determine how much of the grant was used for activities that promoted the bond measure and seek recovery of those funds. If the port cannot adequately account for the grant funds, department management should recover the full amount of the grant. We also recommended department management more carefully monitor grant applications to identify conflicts with state laws, and work with the applicants to resolve the conflicts or refrain from funding such projects.	\$17,500
Report No. 2009-03	Oregon Parks and Recreation Department: Loss of Funds Investigation and Internal Controls Review at the Oregon State Fair and Exposition Center	We recommended department management: <ul style="list-style-type: none"> • continue its efforts to segregate responsibilities; • improve controls over cash, event billing processes, contracts, employee purchases and travel, and payroll; and • pursue recovery of \$84,362 in contract overpayments. 	\$190,968
2008 Questioned Costs			\$211,368
1995 through 2007 Questioned Costs			\$6,419,148
Total Questioned Costs through 2008			\$6,630,516



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**Auditing to Protect the
Public Interest and Improve
Oregon Government**

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

This report, a public record, is intended to promote the best possible management of public resources. Copies may be obtained from our website on the internet at:

<http://www.sos.state.or.us/audits/index.html>

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