

Secretary of State Information Report

Kate Brown, Secretary of State

Gary Blackmer, Director, Audits Division



Government Waste Hotline, January – December 2009

Summary

This report summarizes activity reported through the Oregon Secretary of State Government Waste Hotline (hotline) in calendar year 2009. 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 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 347 reports in calendar year 2009. 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 15 for 2009, of which 11 remain open and may result in an audit or investigation.

A new reporting category was added in 2009 in cooperation with the Governor's Office to capture reports of fraud or misuse of the American Recovery and Reinvestment Act (ARRA or "stimulus") funds.

This report summarizes the results of three investigations we completed in 2009. 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 \$8.1 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.

Background

Hotline

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 other methods such 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://www.sos.state.or.us/audits/fraud/index.html> or at <http://fraud.oregon.gov>.

The law provides confidentiality for the identity of any person making a report under the hotline (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.

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.

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 the reporting requirements, 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 reports that we are unable to investigate, we provide callers with alternative contacts for reporting their concerns.

Results

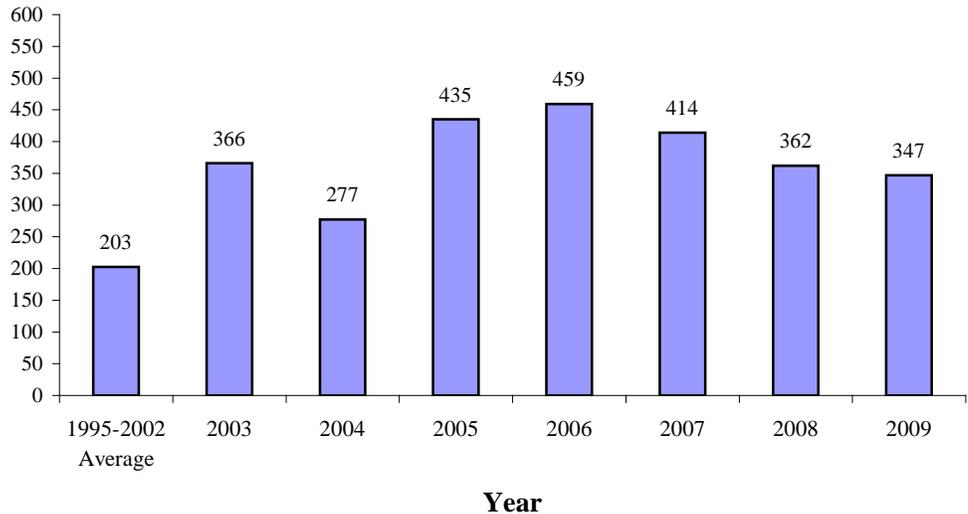
Origin of Reports Received

Of the reports we received in calendar year 2009, 73 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 347 initial hotline reports in calendar year 2009. In addition, we received 143 callback reports. As shown in Chart 1, the number of hotline reports received peaked in 2006.

Chart 1: Number of Reports Received
(Excludes Callbacks)

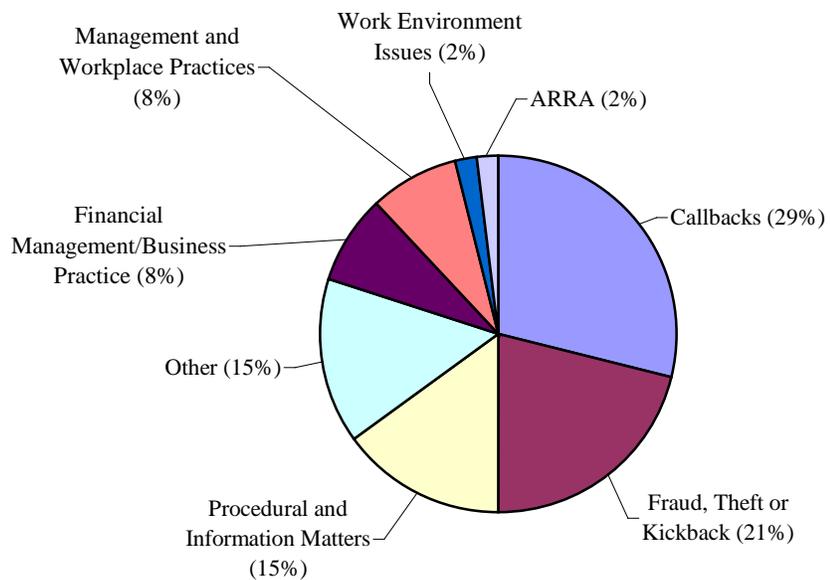


Nature of Reports Received

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

In February 2009, Congress passed the American Recovery and Reinvestment Act (ARRA) of 2009. Immediate goals of ARRA are to create new jobs and save existing ones, spur economic activity and invest in long-term growth, and foster unprecedented levels of accountability and transparency in government spending. In cooperation with the Governor's Office, the division introduced a new category to capture reports related to the ARRA funds. During calendar year 2009, we received 11 reports related to ARRA funding.

Chart 2: Nature of Reports Received



Callbacks (29 percent) represent callers providing additional information about a report they previously made to the hotline or requesting information about the status of their reports.

Fraud, Theft or Kickback (21 percent) issues relate to fraud, false claims, embezzlement, theft, false reports, bribery, and corrupt practices.

Procedural and Information Matters (15 percent) relate to policy clarification, frustration with procedures, and requests for information.

Other (15 percent) issues relate to safety, quality of service, privacy, and security.

Financial Management/Business Practice (8 percent) relates to accounting practices, tax issues, cost reporting issues, contracts and agreements, purchasing issues, and documentation issues.

Management and Workplace Practices (8 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 retaliation, unethical or improper behavior, unfair treatment, wrongful termination, discrimination, and other harassment issues.

ARRA (2 percent) issues relate to reports submitted where the caller identified concerns related to the American Recovery and Reinvestment Act or “stimulus” funding.

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 347 hotline reports we received during calendar year 2009.

- One report required investigation, findings relating to the allegation were identified and a report was issued.
- Eleven reports remain open and may result in an audit or investigation.
- Fifteen 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 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.

Eleven hotline reports, counted in the resolutions noted above, were related to ARRA funds. Three of these reports remain open, pending further review; one was closed after we reviewed the concerns and did not substantiate the allegations; and seven were personal opinions, private matters, or related to funds that did not pass through the state. As appropriate, we provided referral information to the callers.

Summary of Investigations

The following summarizes a management letter and two audit reports we issued for investigations we completed during calendar year 2009. Two of the investigations were initiated in a previous year and completed in 2009. One investigation was initiated and completed in 2009. The recommendations are included in Table 1 on page 9 along with the associated questioned costs.

Oregon Military Department: Armory Rental Program Review

The Audits Division received allegations through the Government Waste Hotline that the Oregon Military Department was not adequately managing its armory rental program. We investigated the validity of the allegations and found that three allegations had merit.

The three allegations we substantiated related to unauthorized use of one of the Oregon Military Department's armories, untimely collection of rental receipts, and inadequate justification for changes in established rental rates.

Further details of this investigation can be found in Secretary of State Management Letter No. 248-2009-12-01.

Oregon Commission for the Blind: Actions Needed to Ensure Funds Are Used for Client Purposes, Expenditures Are Controlled, and Assets Are Protected

In March 2007, the Audits Division received allegations that the commission had mismanaged operations and misused funds intended for clients. Our initial review of these matters substantiated several of the allegations and disclosed problems similar to those reported in previous audits of the commission. As a result, we expanded the scope of our audit to determine whether the commission had ensured resources were used for client purposes, expenditures were controlled and assets were adequately protected.

We found instances in which the commission did not use funds for client purposes. Specifically, the commission used approximately \$61,000 of public funds for purposes that did not always benefit clients and, in some cases, were not allowed by federal regulations. Furthermore, the commission made some business decisions with little regard for established purchasing and planning processes and did not always ensure client purchases were necessary and reasonable. As a result, we question whether \$1.4 million of additional public funds were used prudently. Finally, we found that due to internal control weaknesses, state assets were not always adequately protected.

Further details of this investigation can be found in Secretary of State Audit Report No. 2009-12.

**Oregon Watershed Enhancement Board: Baker
Valley Soil and Water Conservation District:
Opportunities Exist for Improved Project
Management**

This audit was conducted to determine the validity of allegations we received through the Government Waste Hotline relating to state funds granted to the Baker Valley Soil and Water Conservation District (District) for the Powder River Water Quality Enhancement Project in Baker Valley.

From February 2005 through March 2008 the District received about \$1.5 million in state funds from the Oregon Watershed Enhancement Board and the Oregon Department of Environmental Quality to construct the Powder River Quality Enhancement Project (project). The project included the construction of an 11 mile pipeline, allowed for improved fish passage, and allowed for the restoration of degraded riparian vegetation along the Powder River. The project was substantially completed in 2008.

In February 2009, we received allegations that project funds had been mismanaged. We began an audit to determine the validity of the allegations. In addition, we determined whether the District had implemented selected internal controls over financial transactions to safeguard public funds against loss from unauthorized use or disposition.

We found that only one of the allegations received through the hotline had merit. The allegation we substantiated related to a lack of compliance with public contracting laws. The District was unable to document that it solicited bids and entered into formal contracts for all key services and materials. As a result, the District could not ensure it obtained the best price for the services and materials purchased; the District could not demonstrate vendor selections were impartial; and the District limited its legal options if vendors had provided substandard services and materials. In addition, we identified some conditions the District could address to better identify related parties and possible conflicts of interest stemming from related-party transactions.

Further details of this investigation can be found in Secretary of State Audit Report No. 2010-01.

Questioned Costs and Recommendations

Table 1 summarizes investigations and audits we completed during calendar year 2009, as well as associated questioned costs. Since the inception of the hotline in 1995, we have identified approximately \$8.1 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: Hotline Reports Summary

Report No.	Report Name	Recommendations	Questioned Costs
Management Letter No. 248-2009-12-01	Oregon Military Department: Armory Rental Program Review	We recommended department management ensure: <ul style="list-style-type: none"> • policies and requirements of the rental program are timely communicated to armory users and department personnel; • rental fees are collected and deposited timely; and • each contract file contains documented justification for rate changes and policy deviations. 	\$0
Report No. 2009-12	Oregon Commission for the Blind: Actions Needed to Ensure Funds Are Used for Client Purposes, Expenditures Are Controlled, and Assets Are Protected	We recommended commission management: <ul style="list-style-type: none"> • ensure funds are used for client purposes and are clearly tied to business needs; • comply with federal regulations, restrict services to allowed purposes only; • obtain competitive pricing and protect the state's interests through the use of written contracts; • comply with laws and rules to help ensure business ventures are adequately planned before providing funding; • guide staff who make client purchases, restrict purchases to those necessary and reasonable for client purposes and ensure all purchases are reviewed and approved; • obtain and review adequate documentation in accordance with the commission's administrative rules prior to authorizing payment for goods and services; • document vending machine information, including the percentage to be paid to the commission, to ensure all vending revenue is collected; • conduct inventory counts and invoice clients timely; • ensure assets susceptible to theft are controlled; • ensure travel advances are reconciled timely and substantiated with original and complete receipts; and • ensure all funds received are deposited in the commission's cash accounts and are properly recorded. 	\$1,461,000
Report No. 2010-01	Oregon Watershed Enhancement Board: Baker Valley Soil and Water Conservation District: Opportunities Exist for Improved Project Management	We recommend the District's Board and District management: <ul style="list-style-type: none"> • comply with public contracting laws on future projects and ensure formal contracts are executed to protect the District's interests and public funds; and • ensure conflicts of interest are appropriately disclosed and develop policies and procedures for the disclosure and treatment of conflicts of interest. 	\$0
2009 Questioned Costs			\$1,461,000
1995 through 2008 Questioned Costs			\$6,630,516
Total Questioned Costs through 2009			\$8,091,516

About the Secretary of State Audits Division

The Oregon Constitution provides that the Secretary of State shall be, by virtue of her office, Auditor of Public Accounts. The Audits Division exists to carry out this duty. The division reports to the elected Secretary of State and is independent of the Executive, Legislative, and Judicial branches of Oregon government. The division audits all state officers, agencies, boards, and commissions and oversees audits and financial reporting for local governments.

Hotline Team

V. Dale Bond, CPA, CISA, CFE

Sandra K. Hilton, CPA

Jason A. Butler, CFE

Brian T. Nava

Karen M. Peterson

Jamie N. Ralls, CFE

Nicole D. Real, CPA

John W. Turgesen

Raul Valdivia, CPA, CFE

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

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

phone: 503-986-2255

mail: Oregon Audits Division
255 Capitol Street NE, Suite 500
Salem, OR 97310

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