

# Secretary of State Audit Report

Kate Brown, Secretary of State

Gary Blackmer, Director, Audits Division



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## Government Waste Hotline, January – December 2010

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### Summary

This report summarizes activity reported through the Oregon Secretary of State Government Waste Hotline (hotline) in calendar year 2010. 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 hotline report and determines which reports to investigate further.

Since the inception of the hotline in 1995, we have identified approximately \$8.1 million in questioned costs. 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.

The division received 184 reports in calendar year 2010. 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. Twelve reports remained open and may result in an audit or investigation.

This report provides background information about the hotline and describes the number, nature and resolution of the reports received. We also summarize the results of one investigation completed in 2010. As a result of the investigation, we identified needed improvements in a school district's public contracting procedures.

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## 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 such other methods as on-line reporting, postal mail, e-mail, walk-ins, and telephone calls directly to the Audits Division.

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/pages/fraud/index.html> or at <https://oregonsos.alertline.com/gcs/welcome>.

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 and determines which reports to investigate 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.

After completing 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.

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## Results

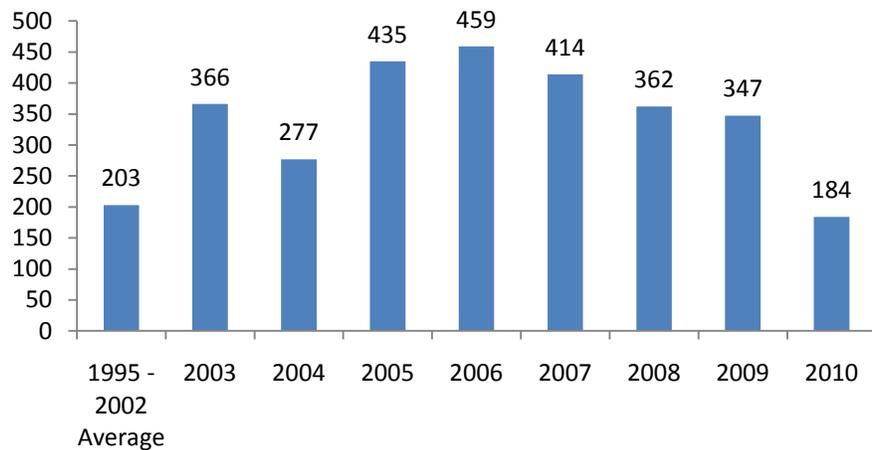
### Origin of Reports Received

Of the reports we received in calendar year 2010, 61 percent came through the hotline and 29 percent came through online reporting. The remainder came through electronic mail, postal mail, walk-ins, and direct telephone calls. Concerned citizens as well as state employees made the reports.

### Number of Reports Received

We received 184 initial hotline reports in calendar year 2010. In addition, we received 70 callback reports. As shown in Chart 1, the number of hotline reports peaked in 2006.

**Chart 1: Number of Reports Received**  
(Excludes Callbacks)



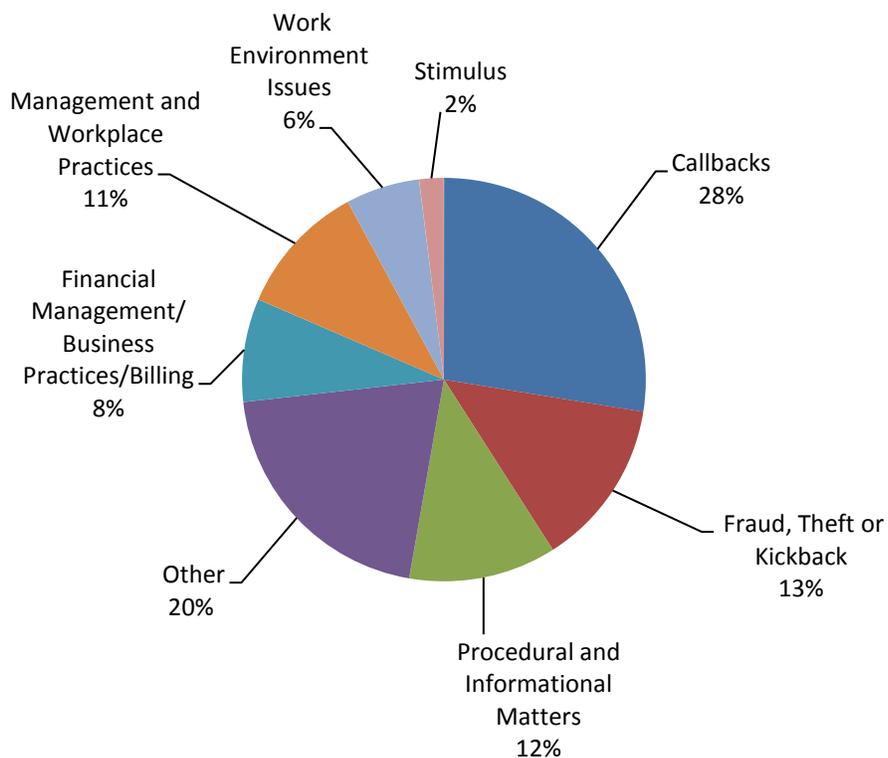
During 2010 we modified our procedures for screening reports. Previously, we recorded all reports received through the hotline, including reports that were not relevant to the hotline. In 2010, we intensified our screening procedures and did not log reports that clearly were not relevant to waste, inefficiencies and abuse of state funds by state agencies, state employees, or persons under contract with state agencies. Callers reporting non-relevant matters were referred to alternative contacts as appropriate. As a result of this process change, the number of reports to the hotline decreased significantly.

## Nature of Reports Received

The hotline reports received, including call backs, fell into the categories described below.

In February 2009, Congress passed the American Recovery and Reinvestment Act (ARRA) of 2009. Its main goals were to create new jobs and save existing ones, spur economic activity and invest in long-term growth, and foster accountability and transparency in government spending. In cooperation with the Governor's Office, we introduced a new category of reports to capture any related to the stimulus funds. During calendar year 2010, we received five reports related to stimulus funding.

**Chart 2: Nature of Reports Received in 2010**



*Callbacks* (28 percent) represent callers providing additional information about a report they previously made to the hotline or requesting information about the status of their reports.

*Other* (20 percent) issues relate to safety, quality of service, privacy, and security.

*Fraud, Theft or Kickback* (13 percent) issues relate to fraud, false claims, embezzlement, theft, false reports, bribery, and corrupt practices.

*Procedural and Information Matters* (12 percent) relate to policy clarification, frustration with procedures, and requests for information.

*Management and Workplace Practices* (11 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* (8 percent) relates to accounting practices, tax issues, cost reporting issues, contracts and agreements, purchasing issues, and documentation issues.

*Work Environment Issues* (6 percent) relate to retaliation, unethical or improper behavior, unfair treatment, wrongful termination, discrimination, and other harassment issues.

*Stimulus* (2 percent) issues relate to reports concerning the American Recovery and Reinvestment Act (ARRA) 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 their 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. Below we describe how we resolved the 184 hotline reports submitted during calendar year 2010.

### **2010 Hotline Reports**

- Twelve reports remain open and may result in an audit or investigation.
- Nine 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.
- One hundred sixty-three reports were closed after we determined the logged 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 needed to proceed with an investigation.

## **2009 Hotline Reports**

Eleven reports remained open at the end of 2009 and were resolved in 2010:

- Four reports required investigations. One investigation identified findings and a report was issued. The other three investigations were unsubstantiated and did not result in a report.
- Seven 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 the one investigation conducted in 2010 that resulted in a written report. The recommendations are included in Table 1 on page 8.

### **Klamath Falls City School District: Departure from Contracting Rules**

The Audits Division received an allegation that Klamath Falls City School District was not fully complying with public contracting rules. We investigated the validity of the allegation and determined that it had merit. Specifically, we found that the district did not fully comply with the Oregon Attorney General's model rules for selecting consultants when it awarded jobs to a structural engineering firm. Further details of this investigation can be found in Secretary of State Management Letter No. 2010-04-01.

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## Questioned Costs and Recommendations

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 includes the recommendation from the investigation we completed in calendar year 2010. We did not question any costs as a result of this investigation.

**Table 1: Hotline Reports That Resulted in Questioned Costs**

<b>Report No.</b>	<b>Report Name</b>	<b>Comments/Recommendations</b>	<b>Questioned Costs</b>
Management Letter No. 2010-04-01	Klamath Falls City School District: Departure from Contracting Rules	We recommend district management ensure its contracts are awarded in compliance with public contracting rules.	\$0
<b>Total Questioned Costs 1995 through 2010</b>			<b>\$8,091,516</b>

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## 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.

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