

# Secretary of State Audit Report

Kate Brown, Secretary of State

Gary Blackmer, Director, Audits Division



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## Government Waste Hotline, January – December 2011

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### Summary

This report summarizes activity reported through the Oregon Secretary of State Government Waste Hotline (hotline) in calendar year 2011. 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, walk-ins, and telephone calls directly to the Secretary of State, Audits Division (division). Staff at the division conduct 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 \$16 million in questioned costs. Those amounts represent misappropriated public and private funds, questionable expenditures, monies not spent in accordance with applicable laws, errors in federal awards, or potential savings that could result from improved efficiencies or the elimination of waste or abuse.

The division received 149 hotline reports in calendar year 2011. 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. Nine reports remained open and may result in an audit or investigation.

In addition to describing the number, nature and resolution of the hotline reports received in 2011, this report also summarizes the results of two investigations and two follow up reviews we completed in 2011. As a result of this work, we identified areas in which state agencies could strengthen controls and improve accountability.

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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 (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 using the Secretary of State, Audits Division's website at <http://www.sos.state.or.us/audits/pages/fraud/index.html> or <https://oregonsos.alertline.com/gcs/welcome>.

State law provides confidentiality for the identity of any person making a report through the hotline (ORS 177.180).

The 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.

If, after completing an investigation, we find that an officer, employee or contractor of a state agency or public body was involved in activities constituting waste, inefficiency or abuse, we prepare a written report to that state agency or public body. If requested, we also provide a copy of the report to the person who contacted the hotline.

We are also required to prepare and submit to the Legislative Assembly and appropriate interim committees an annual report that describes the number, nature, and resolution of reports made through the hotline. We are required to include in the report any savings resulting from improved efficiencies or eliminated 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 ongoing basis to determine whether sufficient information was provided and whether the reported concerns 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

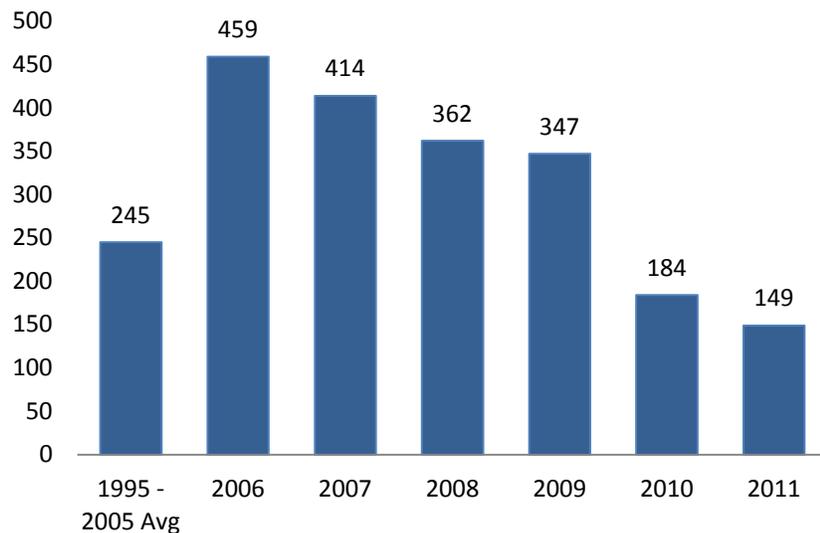
### Origin of Reports Received

Of the reports we received in calendar year 2011, 60% came through the toll-free telephone hotline and 28% came through online reporting. The remainder came through e-mail, postal mail, walk-ins, and direct telephone calls to the division. Concerned citizens as well as state employees made the reports.

### Number of Reports Received

We received 149 initial hotline reports in calendar year 2011. In addition, we received 59 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. In 2010, we intensified our screening procedures to redirect reports related to public assistance abuse by private citizens to the Oregon Department of Human Services. As a result of this process change, the number of recorded hotline reports decreased significantly.

## Nature of Reports Received

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 ARRA funds Oregon received. During calendar year 2011, we received two reports related to this funding. The following table details the reports received.

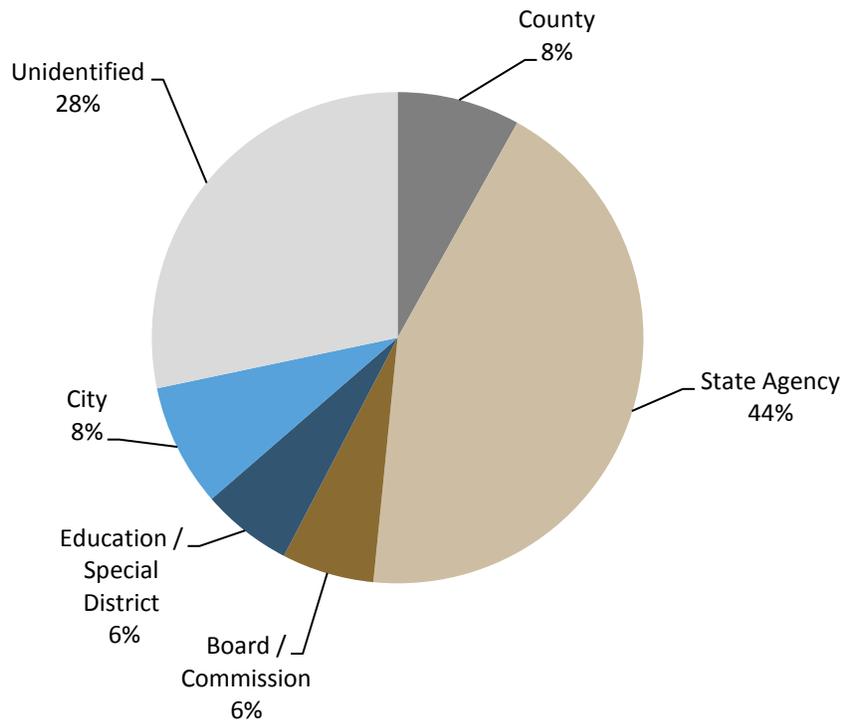
**Table 1: Nature of Reports Received**

Classification	Description	Number of 2011 Reports	Percent of 2011 Reports
Callbacks	Callers providing additional information about a report they previously made to the hotline or requesting information about the status of their report.	59	28%
Insignificant/Unrelated	Investigated reports determined insignificant or unrelated to state funds.	46	22%
Work Environment Issues	Reports concerning unethical or improper behavior, discrimination, wrongful termination, or conflicts of interest.	35	17%
Policies and Procedures	Reports concerning state policies and procedures and requests for information.	20	10%
Fraud, Theft, or Kickback	Reports concerning fraud, false claims, embezzlement, theft, false reports, corrupt practices, and kickbacks.	14	7%
Financial Management	Reports concerning accounting practices, audits, and tax issues.	10	5%
Scams	Reports related to a scam (e.g., internet scam).	7	3%
Contracting	Reports concerning public contracting.	6	3%
Time Theft	Reports regarding state employees untruthfully claiming time worked.	6	3%
State Vehicle Misuse	Reports regarding the misuse of a state vehicle.	3	1%
Stimulus	Reports related to the American Recovery and Reinvestment Act (ARRA).	2	1%
	<b>TOTAL</b>	<b>208</b>	<b>100%</b>

## Subjects of Hotline Reports

Chart 2 details the subject of the hotline reports we received and investigated in 2011. The majority of the reports were related to state agencies (44%). With the exception of “City” (8%) and “Unidentified” (28%), the entities shown typically receive state funds. Therefore, 64% of the reports received in 2011 were related to entities with the potential to receive state funds.

**Chart 2: Hotline Report Subjects**



## 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 directly to obtain additional information. In addition, in some cases, we are able to communicate with anonymous callers through the online reporting application.

We resolve 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 149 hotline reports submitted during calendar year 2011.

### **2011 Hotline Reports**

- Nine reports remain open and may result in further investigation.
- Sixteen reports required review to determine whether the described concerns 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 twenty-four 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 needed to proceed with an investigation.

### **2010 Hotline Reports**

Twelve reports remained open at the end of 2010 and were resolved in 2011:

- Two reports required investigations. One investigation identified findings and questioned costs and resulted in a report (*Oregon Health Authority: Improve Controls over Child Enrollment and Advertising Expenditures*). The other investigation identified areas for improvement in processes and resulted in a management letter (*Oregon University System: University of Oregon Employment Contracts*). The section below provides summaries of these two investigations.
- Ten reports were closed after we determined they 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.

### **Other**

In addition, during 2011 we conducted two follow-up reviews of reports received through the hotline in prior years. These follow up reviews were conducted at the Oregon Commission for the Blind and the Willamette Education Service District. Our primary objective of these reviews was to determine if recommendations made in our prior audits had been fully implemented.

## Summary of Investigations

The following summarizes the two investigations and two follow up reviews we conducted in 2011 that resulted in written reports. The recommendations are included in Table 2.

### **Willamette Education Service District: Recommendations Follow-up**

In 2009, the Audits Division received allegations through the hotline of financial mismanagement at the Willamette Education Service District (WESD). We also received a request from members of the Oregon Legislature, the Oregon Superintendent of Public Instruction, and the Willamette Education Service District (WESD) Board of Directors to conduct a review of WESD's financial practices. In January 2010 we released Secretary of State Audit Report No. 2010-11.

The audit found a number of WESD business practices that needed improvement. Audit recommendations were directed to the WESD Board, the new WESD Superintendent and management, and the Oregon Superintendent of Public Instruction.

In 2011, the Audits Division conducted follow-up work to determine if those recommendations had been implemented. We found that significant efforts had been made to improve management and governance practices. Several recommendations directed to the WESD Board had been fully implemented, and all recommendations directed to the WESD Superintendent and management had been at least partially implemented, with some fully implemented.

While performing audit procedures to determine if WESD had implemented our recommendations, we identified the following additional questioned costs:

- A \$1.3 million calculation error in the amount that WESD was to distribute to school districts. Left uncorrected, the school districts would not have received their full allocation.
- Contracts totaling \$1.8 million that were not awarded using the competitive bidding process.
- Catering charges and an employee's salary for facilitating catering and room rentals totaling \$80,000. Although these charges followed WESD policy, we questioned the decision to provide catered meals and refreshments for meetings.

Further details of this follow-up can be found in Secretary of State Audit Report No. 2011-07.

**Oregon Health Authority:  
Improve Controls over Child Enrollment and Advertising Expenditures**

In October 2010, the Audits Division received allegations that the Oregon Health Authority's (OHA) Healthy Kids program lacked internal controls for advertising expenditures and reporting enrollment numbers to the federal government. Based on a preliminary review of the allegations, we determined an audit was necessary.

The purpose of our audit was to review selected internal controls and fiscal management procedures that OHA had in place for its Healthy Kids program. We focused on controls over advertising expenditures and the OHA Medicaid child enrollment numbers reported to the federal government for a performance bonus award.

We found an error in the process OHA used to apply for the 2010 bonus award that resulted in Oregon being awarded approximately \$4.6 million more than warranted. The error was caused by a change in the methodology OHA used for compiling the numbers from one year to the next and insufficient review of the results. When we brought this to their attention, OHA managers promptly contacted the federal government regarding the error. OHA management indicated that the excess award amount had not been received, and the award was adjusted in a timely manner.

We also found OHA's controls over advertising expenditures generally ensured accurate and proper transactions. However, we noted some areas where controls could be improved. For example, proper documentation (i.e., purchase orders, contracts, and proof of service performance) was not always in place before payment was made, and applicable signatures were not always obtained for some documents. In addition, we noted OHA could improve its payment tracking system to minimize the risk of duplicate payments. Finally, some transactions were miscoded in the accounting records.

Further details of this investigation can be found in Secretary of State Audit Report No. 2011-19.

## **Oregon Commission for the Blind: Audit Recommendations Follow-up**

The Audits Division received allegations that the commission had mismanaged operations and misused funds intended for clients. We conducted an audit and released Secretary of State Audit Report No. 2009-12 in 2009 that substantiated some of the allegations. We provided the commission with twelve recommendations to improve controls.

During 2011, we conducted a follow-up review to determine if those recommendations had been implemented. Our review found some improvement, but less than was reported by management to the Legislature and the Audits Division. We determined that four of the twelve recommendations had been fully implemented by the commission, six had been partially implemented, and two had not been implemented. In addition, we identified new areas for improvement related to state fleet vehicles, leased space spending, payroll and the Business Enterprise program.

While performing audit procedures to determine if the commission had implemented our recommendations, we identified the following additional questioned costs:

- \$53,500 for one employee to occupy a 900 square foot office space in Lincoln City;
- \$9,146 of expenditures that did not follow the commission's events policy;
- \$334 for reimbursement of two employees' home internet costs;
- \$800 in excess catering costs;
- \$16,233 of expenditures that lacked supporting documentation;
- \$12,460 of excess cell phone costs; and
- \$3,458 in advanced funding to clients and volunteers.

Further details of this follow-up review can be found in Secretary of State Audit Report No. 2011-20.

**Oregon University System:  
University of Oregon Employment Contracts**

In November 2010, the Audits Division received allegations through the hotline that the University of Oregon (UO) may have violated administrative rules in the course of creating or administering contracts with the former university president. Our review substantiated one of the allegations.

A 2009 contract negotiated for the former UO president did not include a clause regarding repayment of sabbatical as required by administrative rule. The review noted that the former president provided UO officials with a sabbatical plan and, after completing the sabbatical, a report on his sabbatical projects. It was also noted that the former president continued employment with the university for more than the required year after his sabbatical.

The review also identified other areas of improvement for employment contracts.

Further details on this review can be found in Secretary of State Management Letter No. 580-2011-07-01.

## Questioned Costs and Recommendations

Since the inception of the hotline in 1995, we have identified approximately \$16 million in questioned costs. These costs include misappropriated public and private funds, questionable expenditures, monies not spent in accordance with applicable laws, errors in federal awards, and potential savings that could result from improved efficiencies or the elimination of waste or abuse.

Table 2 includes recommendations from the investigations we completed in calendar year 2011 that resulted in questioned costs, as well as the amount of questioned costs.

**Table 2: Hotline Reports That Resulted in Questioned Costs**

Report No.	Report Name	Comments/Recommendations	Questioned Costs
2011-07	Willamette Education Service District: Recommendations Follow-up	The following recommendations from our original audit (report number 2010-11) were not fully implemented: <ul style="list-style-type: none"> <li>• build an accountability system that ensures all Board members obtain a sound understanding of WESD;</li> <li>• define roles and expectations and establish Board policies and recommendations to improve WESD;</li> <li>• establish expectations and act accordingly to create a working environment that values good stewardship of public resources;</li> <li>• upgrade WESD's system of internal policies, procedures, and internal controls to better align with best practices in other government organizations; and</li> <li>• identify and promote best practices among ESDs on the use and reporting of services, costs, and public resources with the purpose of increasing accountability and transparency.</li> </ul>	\$3,180,000
2011-19	Oregon Health Authority: Improve Controls over Child Enrollment Reporting and Advertising Expenditures	We recommended department management: <ul style="list-style-type: none"> <li>• develop a consistent process to compile and review the bonus award enrollment figures for future submission;</li> <li>• work with the federal government to adjust the bonus award amount;</li> <li>• ensure purchase orders and contracts are in place as appropriate, and are properly executed;</li> <li>• implement an effective payment tracking process to reduce the risk of overpayment;</li> <li>• ensure timely delegation of signature authority;</li> <li>• obtain and retain proof of performance documentation that clearly supports the services provided;</li> <li>• correct the recording errors identified during the audit; and</li> <li>• determine and resolve the effect of the incorrect reimbursement rate resulting from the miscoded transactions.</li> </ul>	\$4,638,076

**Table 2: Hotline Reports That Resulted in Questioned Costs (cont'd)**

Report No.	Report Name	Comments/Recommendations	Questioned Costs
2011-20	Oregon Commission for the Blind: Audit Recommendations Follow-up	<p>The following recommendations from our original audit (report number 2009-12) were not fully implemented:</p> <ul style="list-style-type: none"> <li>• ensure funds are used for client purposes and are clearly tied to business needs;</li> <li>• comply with federal regulations, restrict services to allowed purposes only and work with the federal agency that provided funding to resolve and return disallowed costs;</li> <li>• implement procedures to ensure the agency obtains competitive pricing and protects the state's interests through the use of written contracts when appropriate;</li> <li>• comply with state laws and administrative rules to help ensure business ventures are adequately planned before providing funding;</li> <li>• develop and implement policies and procedures to guide staff who make client purchases, restrict purchases to those necessary and reasonable for client purposes and ensure all purchases are appropriately reviewed and approved;</li> <li>• document vending machine information, including the percentage to be paid to the agency, to ensure all vending revenue is collected;</li> <li>• ensure assets susceptible to theft are adequately controlled as required by state policy; and</li> <li>• ensure travel advances are reconciled timely and substantiated with original and complete receipts.</li> </ul> <p>In addition, during our follow up audit we identified other issues not related to the original audit. We recommended the commission hold agency management accountable by:</p> <ul style="list-style-type: none"> <li>• reviewing previous audits and their recommendations;</li> <li>• reviewing agency policies and spot-checking expenditures for reasonableness and appropriateness;</li> <li>• monitoring regular reports from agency staff on fiscal and operational matters such as assets inventories, contributions, employee caseloads, and litigations; and</li> <li>• ensuring that expenditures from contributions are necessary and reasonable.</li> </ul>	\$95,931
580-2011-07-01	University of Oregon Employment Contracts	We recommend the Oregon University System and the University of Oregon take steps to ensure sabbatical contracts contain the required provisions, all employment contracts are signed timely and clearly state their purpose and all parties' responsibilities, and necessary information is promptly communicated to payroll and other appropriate parties.	\$0
<b>2011 Questioned Costs</b>			<b>\$7,914,007</b>
<b>1995 through 2010 Questioned Costs</b>			<b>\$8,091,516</b>
<b>Total Questioned Costs 1995 through 2011</b>			<b>\$16,005,523</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.