

# Secretary of State Report

Kate Brown, Secretary of State

Gary Blackmer, Director, Audits Division



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## Government Waste Hotline: January – December 2012

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### Summary

This report summarizes activity reported through the Oregon Secretary of State Government Waste Hotline (hotline) in calendar year 2012. 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 online reporting, postal mail, email, walk-ins and telephone calls directly to the Secretary of State, Audits Division (division). Division staff conducts an initial investigation of each hotline report to determine which reports require further investigation.

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 hotline received 145 initial reports in calendar year 2012. 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 reviews, audits or investigations. Three reports from 2012 remain open and may result in a review, audit, or investigation.

In addition to describing the number, nature, and resolution of the hotline reports received in 2012, this report also summarizes the results of reviews we completed in 2012. This work identified areas in which state agencies could strengthen controls and improve accountability.

During the 76<sup>th</sup> Oregon Legislative Assembly (2011 Regular Session) House Bill 2246 was passed, effective January 1, 2012. House Bill 2246 amended wording to ORS 177.180 and created new provisions that allow the division more flexibility in how hotline reports are handled. Specifically, the division can refer reports received through the hotline to other public bodies (i.e., state government bodies, local government bodies, or special purpose government bodies) that are more appropriate to handle the allegation. For example, if we receive a report regarding tax evasion we can refer that report to the Department of Revenue. When a report is referred, only the content of the report is disclosed; the reporter's identity remains confidential.

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## Background

### Fraud Reporting

As reported in the Association of Certified Fraud Examiners' (ACFE) 2012 Global Fraud Study, the most prevalent trend in fraud detection is the ongoing importance of tips, which has been the most common method of fraud detection since the ACFE began tracking detection data in 2002.<sup>1</sup> The study found that in 2012 43.3% of frauds were uncovered from tips, and the most common source of tips was from employees (50.9%). According to the study, 10.3% of fraud cases were related to government and public administration, which was the second leading industry only behind banking and financial services (16.7%). The study also found that the three most common fraud schemes used in government and public administration were corruption (35.5%), billing (23.4%), and non-cash misappropriations (19.1%). The median loss due to fraud in government was \$81,000.

The presence of a reporting hotline has a positive impact on how frauds are discovered. According to the ACFE's study, organizations with some form of hotline saw a much higher likelihood that a fraud would be detected by a tip (51%) than organizations without a hotline (35%). To ensure state employees are aware of the Oregon Secretary of State Government Waste Hotline, we are required by statute to prepare written notices explaining the purpose of the hotline and that prominently display the hotline telephone number. This notice is to be posted in all state offices and, if the office is open to the public, in a place where the public is most likely to see it. Additionally, all Secretary of State Audits Division employees have the hotline contact information on their business cards. This proactive approach to marketing helps ensure employees and citizens are aware of the hotline.

### Hotline

The 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 online reporting, postal mail, email, walk-ins, and telephone calls directly to the Audits Division..

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<sup>1</sup> Association of Certified Fraud Examiners, "Report to the Nations on Occupational Fraud and Abuse – 2012 Global Fraud Study." Pages 14, 16, 25, 28, 29.

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).

We conduct an initial investigation of each report of waste, inefficiency or abuse to determine which reports require further investigation.

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.

During the 76<sup>th</sup> Oregon Legislative Assembly (2011 Regular Session) House Bill 2246 was passed, effective January 1, 2012. House Bill 2246 amended wording to ORS 177.180 and created new provisions that allow the division more flexibility in how hotline reports are handled. Specifically, the division can refer reports received through the hotline to other public bodies (i.e., state government bodies, local government bodies, or special purpose government bodies) that are more appropriate to handle the allegation. For example, if we receive a report regarding tax evasion we can refer that report to the Department of Revenue. When a report is referred, only the content of the report is disclosed; the reporter's identity remains confidential.

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.

## 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

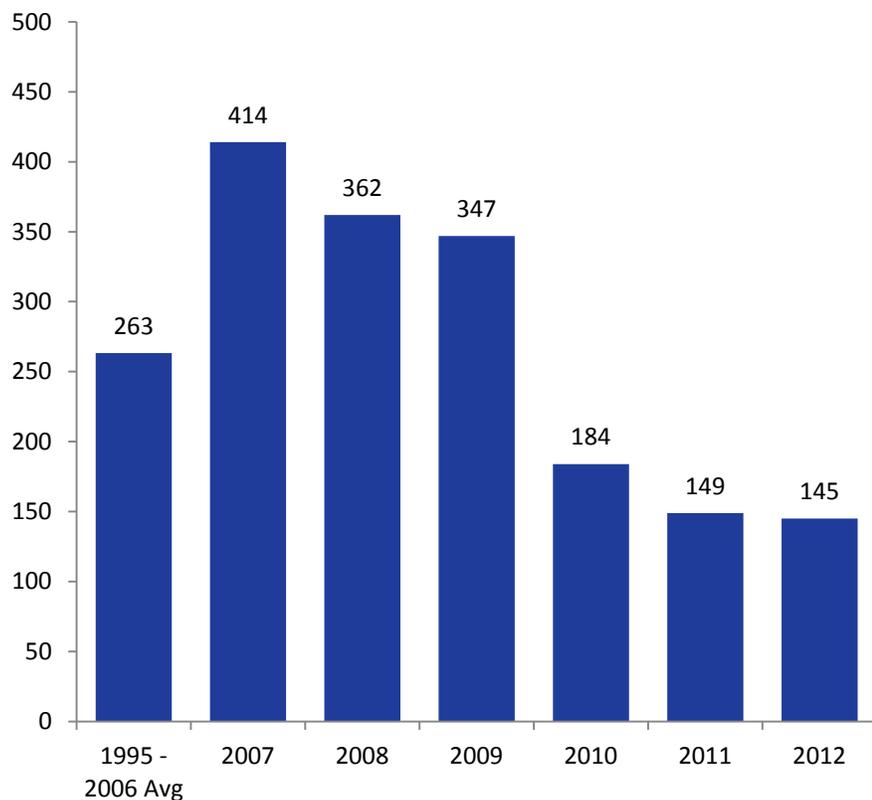
### Origin of Reports Received

Of the reports received in calendar year 2012, 64% came through the toll-free telephone hotline and 26% came through online reporting. The remainder came through email, postal mail, and walk-ins. We received reports from both state employees and concerned citizens.

### Number of Reports Received

We received 145 initial hotline reports in calendar year 2012. As shown in Figure 1, the number of hotline reports peaked in 2007, but has been relatively consistent from 2010 through 2012.

**Figure 1: Number of Reports Received**



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 or the Oregon Health Authority. As a result of this process change, the number of recorded hotline reports decreased significantly.

## Nature of Reports Received

We classify reports received through the hotline into nine categories as described in table 1. During 2012, 25% of the reports were related to policy and procedural issues and 21% were related to work environment issues. Additionally, 28% of the reports were determined insignificant or unrelated to fraud, waste, or abuse of state funds. Table 1 provides descriptions of our classifications, the number of reports received from each classification, and the percentage of total reports received in 2012.

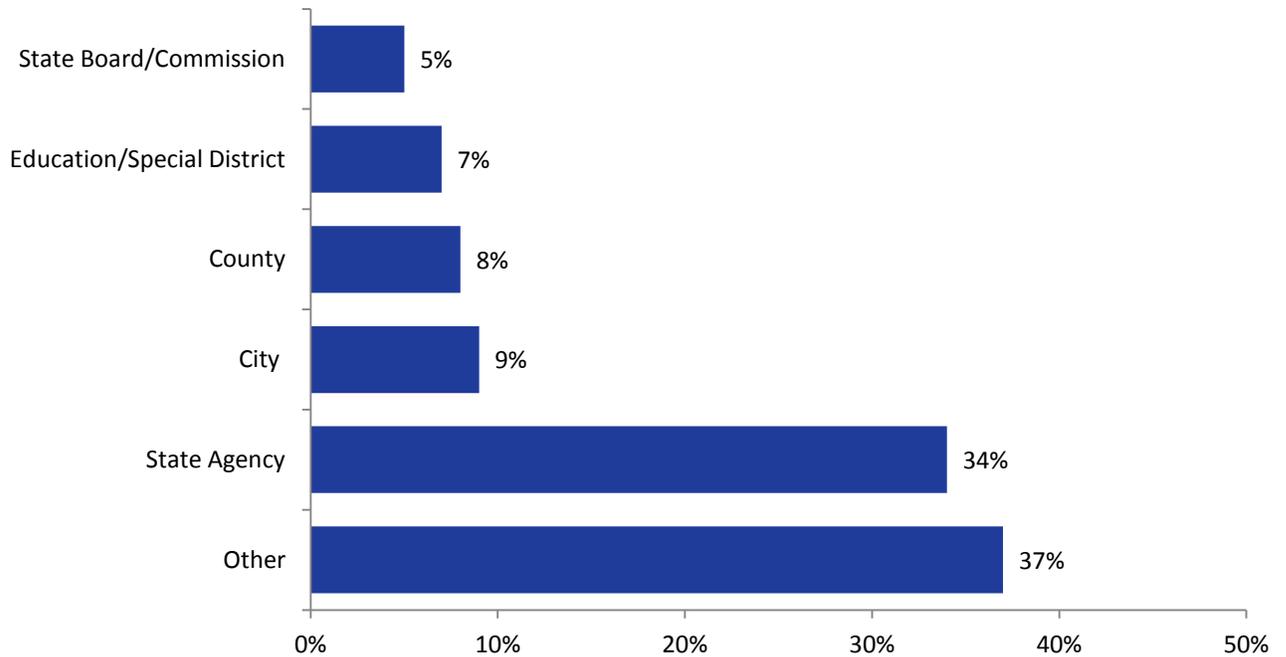
**Table 1: Nature of Reports Received**

Classification	Description	Number of 2012 Reports	Percent of 2012 Reports
Insignificant/Unrelated	Investigated reports determined insignificant or unrelated to state funds.	40	28%
Policies and Procedures	Reports concerning state policies and procedures and requests for information.	36	25%
Work Environment Issues	Reports concerning unethical or improper behavior, discrimination, wrongful termination, or conflicts of interest.	30	21%
Fraud, Theft, or Kickback	Reports concerning fraud, false claims, embezzlement, theft, false reports, corrupt practices, or kickbacks.	18	12%
Financial Management	Reports concerning accounting practices, audits, or tax issues.	7	5%
Scams	Reports related to a scam (e.g., internet scam).	7	5%
State Vehicle Misuse	Reports regarding the misuse of a state vehicle.	3	2%
Contracting	Reports concerning public contracting.	2	1%
Time Theft	Reports regarding state employees untruthfully claiming time worked.	2	1%
<b>TOTAL</b>		<b>145</b>	<b>100%</b>

## Subjects of Hotline Reports

Figure 2 details the subject of the hotline reports we received in 2012. Thirty-four percent of the reports received were related to state agencies. With the exception of *City* (9%) and *Other* (37%), the entities shown typically receive state funds. Therefore, 54% of the reports received in 2012 were related to entities with the potential to receive state funds.

**Figure 2: Hotline Report Subjects**



The *Other* category consists of reports unrelated to state funds.

## Report Resolution

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. Additionally, 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, or performing audits or investigations. Below we describe how we resolved the 145 hotline reports submitted during calendar year 2012, along with nine reports from 2011 that were resolved in 2012.

### ***2012 Hotline Reports***

- Seventy reports were closed after we determined the reports were requests for information; did not involve waste, inefficiency, or abuse of state funds; or the caller did not respond to our requests for additional information needed to proceed with an investigation.
- Thirty-five reports were closed after we provided the reporter with alternative contacts who could better handle their concern.
- Twenty-two reports required review to determine whether the described concerns should be investigated. For these 22 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.
- Fourteen reports were referred to another public body that could more appropriately investigate the allegation.
- Three reports remain open and may result in further investigation.
- One report led to an investigation, which resulted in a written letter.

### ***2011 Hotline Reports***

Nine reports remained open at the end of 2011 and were resolved in 2012. All nine 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 request for additional information.

## Summary of Reviews

The following summarizes the reviews we conducted in 2012 that resulted in written reports.

### ***Willamette Education Service District: Project Management Activities***

In 2009, the hotline received allegations of financial mismanagement at the Willamette Education Service District (WESD). We also received requests from members of the Oregon legislature, the Oregon Superintendent of Public Instruction, and the Willamette Education School District Board of Directors (board) to conduct a review of WESD's financial practices. In January 2010 we issued Secretary of State Audit Report No. 2010-11. During 2011, we conducted follow-up work to determine if the recommendations had been implemented and issued Secretary of State Report No. 2011-07.

During 2012, we returned to WESD to determine if the findings identified in our 2009 audit were applicable to Project Solutions Group (PSG), WESD's construction project management division. We had excluded PSG from the scope of our previous audit.

PSG offers construction project management services to school districts throughout Oregon. PSG offers a concept-to-completion array of services from pre-bond phase to construction close-out. From 2008 through February 2012, PSG entered into 111 contracts with school districts for projects ranging from retrofitting lighting to building a new elementary school in Eagle Point, Oregon.

Our interviews with school district personnel generally indicated a high regard for the services the PSG provided to school districts. Furthermore, PSG did not appear to exhibit most of the problems we identified in previous audits conducted at the WESD. However, we did identify the need for increasing communications with the board regarding the PSG's financial position, maintaining adequate documentation of contracting practices, and documenting and maintaining a record of approvals and transactions.

Further details of this review can be found in Secretary of State Management Letter No. 581-2012-08-01.

[http://www.sos.state.or.us/audits/pages/state\\_audits/management/2012/581-2012-08-01.pdf](http://www.sos.state.or.us/audits/pages/state_audits/management/2012/581-2012-08-01.pdf)

### ***Mt. Hood Community College***

The Oregon Audits Division received allegations through the hotline regarding potential misuse of public funds in the Wilderness Leadership Experiential Education (WLEE) program as well as allegations that Mt. Hood Community College (MHCC) personnel complaints were not investigated in a timely manner. In response to our initial inquiries with MHCC personnel, we found MHCC had begun a review of the WLEE program. Subsequently, MHCC requested our assistance with its review.

We reviewed the WLEE program payment documentation for the period beginning July 1, 2010 through March 15, 2012 and inventory related to the purchases. We also reviewed college program policies and procedures, personnel complaint documentation, and WLEE program documentation. We interviewed personnel at MHCC we considered key to our review. Our work was limited in scope to the allegations that we received.

Based on our review, we identified weaknesses related to the following:

- WLEE inventory monitoring;
- travel policies;
- management of purchasing cards and policies;
- the grant reimbursement process; and
- maintaining investigation documentation.

Additionally, we identified approximately \$13,000 in missing inventory, \$1,500 of which appeared to be for students' personal use with no subsequent reimbursement of the purchases. We also identified approximately \$9,000 in food purchases and meal reimbursements that were not supported by adequate detailed records, or for which policies and procedures did not provide clear direction as to acceptable purchases. Lastly, we identified a \$160 reimbursement to an instructor for a purchase that had been made with a MHCC purchase card.

Further details of this investigation can be found in Secretary of State Management Letter No. 2012-10-01.

[http://www.sos.state.or.us/audits/pages/state\\_audits/management/2012/2012-10-01\\_with\\_response.pdf](http://www.sos.state.or.us/audits/pages/state_audits/management/2012/2012-10-01_with_response.pdf)

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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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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>

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