

Secretary of State Audit Report

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Government Waste Hotline: January – December 2013

Summary

This report summarizes activity reported through the Oregon Secretary of State Government Waste Hotline (hotline) in calendar year 2013. 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, email, and telephone calls directly to the Secretary of State, Audits Division (division). Staff at the division consider each hotline report and determine which reports to investigate further.

Since the inception of the hotline, 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, and potential savings that could result from improved efficiencies or elimination of waste or abuse.

The hotline received 154 reports in calendar year 2013. The nature of the reports varied from requests for information to reports that may warrant further investigation. We resolved reports by performing reviews, referring reports to contacts at other public bodies for their consideration and review, referring callers to appropriate contacts, and providing requested information. Five reports from calendar year 2013 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 2013, this report includes audit summaries of audit reports issued in 2013. While not initiated through the hotline, these audits identified questioned costs and areas where state agencies could strengthen controls and improve accountability.

Background

Fraud Reporting

As reported in the Association of Certified Fraud Examiners' (ACFE) 2014 Global Fraud Study, tips are consistently the most common fraud detection method, which has been an observed trend since the ACFE began tracking detection data in 2002.¹ The study found 42.2% of frauds were uncovered from tips, and the most common source of tips was from employees (49.0%). According to the study, 10.3% of fraud cases were related to government and public administration, which was the second leading industry behind banking and financial services (17.8%). The study also found the three most common fraud schemes used in government and public administration were corruption (36.2%), billing (19.1%), and non-cash misappropriations (17.7%). The median loss due to fraud in government was \$90,000.

The presence of a reporting hotline has a positive impact on how frauds are discovered. According to the ACFE's study, organizations with a hotline saw a much higher likelihood a fraud would be detected by a tip than organizations without a hotline. To ensure state employees are aware of the Oregon Secretary of State Government Waste Hotline, we are required by statute to prepare notices that explain the purpose of the hotline and 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 (division) employees have the hotline contact information on their business cards. This active approach to publicizing helps ensure employees and citizens are aware of the hotline.

¹ Association of Certified Fraud Examiners, "Report to the Nations on Occupational Fraud and Abuse – 2014 Global Fraud Study", pages 19, 21, 22, 24, 27, 29

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 online reporting, email, and telephone calls directly to the 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).

We conduct an initial investigation of each report of waste, inefficiency or abuse and determine 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 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 these reporting requirements, we prepared this report, which presents summary level data on a calendar year basis.

Since the inception of the hotline, 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 elimination of waste or abuse.

Review Process

All hotline reports are logged into a database application available to selected division staff. We review reports on an ongoing basis to determine whether sufficient information was provided and whether 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 to review under the hotline statutes. If we believe a report would be appropriate for another public body to review, we refer the report information. If appropriate, for reports we are unable to investigate, we provide callers with alternative contacts for reporting their concerns.

Results

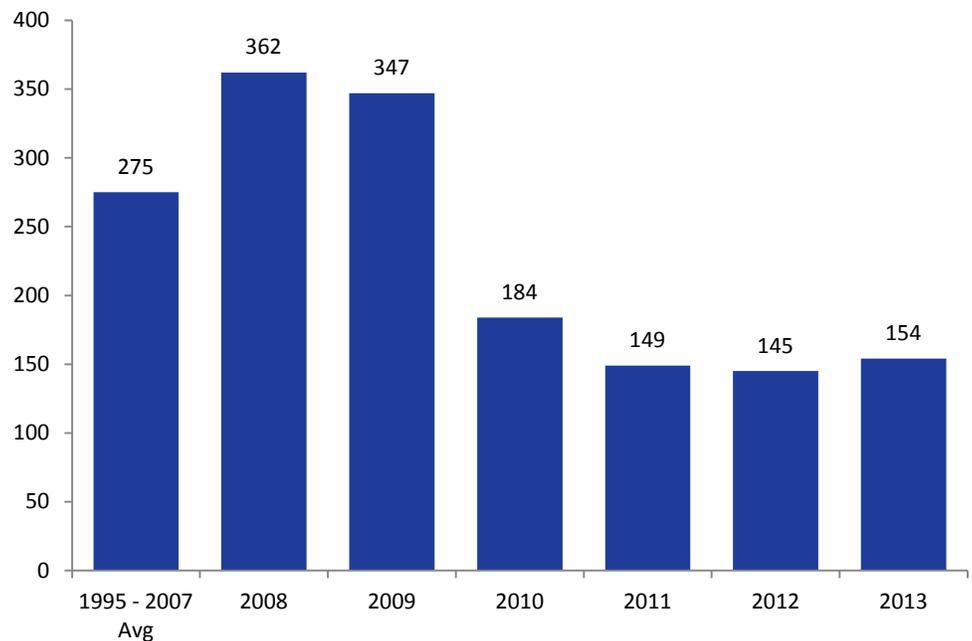
Origin of Reports Received

Of reports received in calendar year 2013, approximately 66% came through the toll-free telephone hotline and 29% came through online reporting. The remaining reports were received through other methods such as email, regular mail, or telephone calls directly to the division. We received reports from state employees and citizens.

Number of Reports Received

We received 154 hotline reports in calendar year 2013. As shown in Figure 1, the number of hotline reports has been relatively consistent from 2010 through 2013.

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 redirected 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 Figure 2. During 2013, 14% of reports were related to possible fraud, theft, or kickbacks and 11% were related to policy or procedural issues. Additionally, 36% of reports were determined insignificant or unrelated to fraud, waste or abuse of state funds. Figure 2 provides descriptions of our classifications and the number and percentage of reports received for each classification in 2013.

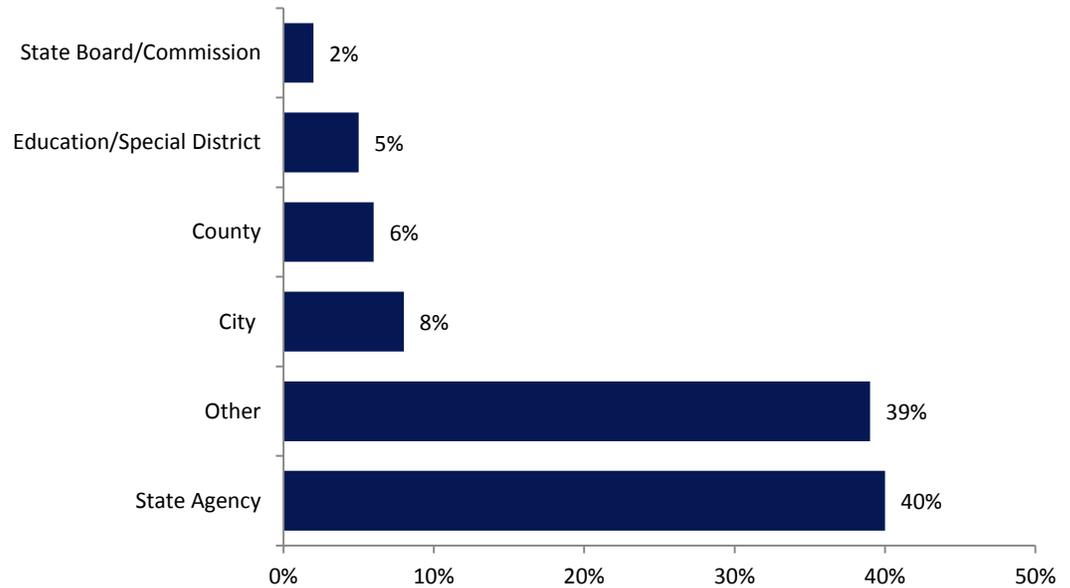
Figure 2: Nature of Reports Received

Classification	Description	Number of 2013 Reports	Percent of 2013 Reports
Insignificant/Unrelated	Reports determined insignificant or unrelated to state funds.	56	36%
Fraud, Theft or Kickback	Reports concerning fraud, false claims, embezzlement, theft, false reports, corrupt practices and kickbacks.	22	14%
Policies and Procedures	Reports concerning state policies and procedures and requests for information.	17	11%
Work Environment Issues	Reports concerning unethical or improper behavior, discrimination, wrongful termination or conflicts of interest.	16	10%
Financial Management	Reports concerning accounting practices, audits and tax issues.	16	10%
Scams	Reports related to a scam (e.g., internet scam).	13	9%
Time Theft	Reports regarding state employees untruthfully claiming time worked.	6	4%
State Vehicle Misuse	Reports regarding misuse of a state vehicle.	4	3%
Contracting	Reports concerning public contracting.	4	3%
TOTAL		154	100%

Subject of Hotline Reports

Figure 3 details the subject of the hotline reports we received in 2013. Forty percent of reports received were related to state agencies. With the exception of “Other” (39%), the entities shown typically receive state funds. Therefore, 61% of reports received in 2013 were related to entities with the potential to receive state funds.

Figure 3: Hotline Report Subjects



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

The division has 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, and special purpose government bodies) that are 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.

We resolve reports by performing reviews, referring reports to contacts at other public bodies for their consideration and review, referring callers to appropriate contacts, and providing requested information. Below, we describe how we resolved the 154 hotline reports submitted during calendar year 2013, along with three open reports from 2012.

2013 Hotline Reports

- Seventy-three 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 reports were closed after we provided the reporter with alternative contacts who could better handle their concern.
- Twenty-seven reports were referred to another public body that could appropriately investigate the allegation.
- Nineteen reports required review to determine whether 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.
- Five reports remain open and may result in further investigation.

2012 Hotline Reports

Three reports remained open at the end of 2012 and were resolved in 2013. All three were closed after we determined they did not involve waste, inefficiency, or abuse of state funds; were already being investigated by another public body; or should be referred to an appropriate contact.

Audit Summaries

The following are audit summaries of audit reports issued in 2013. While not initiated through the hotline, these audits identified questioned costs and areas where state agencies could strengthen controls and improve accountability.

Oregon Youth Authority:

Questioned Costs for Community Reintegration Services

The Oregon Youth Authority (OYA) was established to administer youth correctional facilities and programs in the state of Oregon. The Community Reintegration Program was created to help youths learn better social attitudes and behaviors with the help of community providers.

In August 2012, OYA requested the Audits Division perform an audit of billings submitted by five community reintegration services providers after an internal investigation revealed questionable billing practices on the part of the providers.

We reviewed billings for the selected providers and approval procedures for OYA's Community Reintegration Program for the seven-month period from January through July 2012. We identified approximately \$23,800 in questioned costs comprised of:

- \$13,600 for overstated hours and overlapping clients;
- \$ 4,000 due to contract violations; and
- \$ 6,200 of unsupported provider payments.

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

- training and guidance for juvenile parole and probation officers' monitoring responsibilities;
- expectations and requirements for services in providers' contracts;
- OYA's processes to monitor provider billings; and
- defined roles and responsibilities for juvenile parole and probation officers.

Further details of this audit can be found in Secretary of State Audit Report Number 2013-28.

<http://sos.oregon.gov/Documents/audits/full/2013/2013-28.pdf>

University of Oregon: Payroll Practices

The University of Oregon (UO) administration became aware of potential payroll violations involving federal grants in January 2013 and requested a review by the Internal Audit Division for the Oregon University System (OUS). The audit uncovered inappropriate payroll adjustments for research personnel paid by federal grants in the Institute of Neuroscience (ION). The Secretary of State Audits Division was asked by OUS to determine the extent of payroll discrepancies.

We examined payroll records for a number of UO employees and obtained emails for business or payroll managers of selected departments to examine for potential misuse of overtime and full-time equivalent (FTE) changes. We found inadequate supervisory review of timesheets, but did not identify any indications of FTE adjustments to justify further review of payroll records.

Based upon our review of emails we received, we identified the following concerns:

- use of overtime to circumvent payroll reductions due to state-enforced furloughs and salary freezes; and
- other adjustments to temporarily increase employees' pay.

We also found some instances where managers in academic and research units discussed FTE increases as an option to increase an employee's pay without a clear expectation the employee would work more hours.

Further details of this audit can be found in Secretary of State Audit Report Number 2013-30.

<http://sos.oregon.gov/audits/Documents/2013-30.pdf>

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 other agencies within 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:

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