

Secretary of State Report

Jeanne P. Atkins, Secretary of State

Gary Blackmer, Director, Audits Division



Government Waste Hotline: January – December 2014

Summary

This report summarizes activity reported through the Oregon Secretary of State Government Waste Hotline (hotline) in calendar year 2014. 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. The hotline's toll-free number connects callers to professional operators who receive reports 24 hours a day. In addition to a toll-free telephone line, hotline reports may be submitted through other methods such as on-line 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 180 initial reports in calendar year 2014. 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. Four reports from calendar year 2014 remain open and may result in a review, audit or investigation.

Government Waste Hotline

[1-800-336-8218](tel:1-800-336-8218)

<http://sos.oregon.gov/audits/Pages/fraud.aspx>

<https://oregonsos.alertline.com/gcs/welcome>

Background

Fraud Reporting

As reported in the Association of Certified Fraud Examiners' (ACFE) 2014 Global Fraud Study (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 the reported fraud cases were related to government and public administration, which was the second leading industry only 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 in government due to fraud was \$90,000.

The presence of a reporting hotline has a substantial 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 (1) post notices in state offices that explain the purpose of the hotline and prominently display the hotline telephone number (2) present a fraud page on the Oregon Secretary of State website at <http://sos.oregon.gov/audits/Pages/fraud.aspx>; and (3) periodically email all state employees about the hotline. 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 (2014). *Report to the Nations on Occupational Fraud and Abuse – 2014 Global Fraud Study*, pages 19, 21, 22, 24, 27, 29. Available at <http://www.acfe.com/rtn/docs/2014-report-to-nations.pdf>

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, email, and telephone calls directly to the division.

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

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.

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

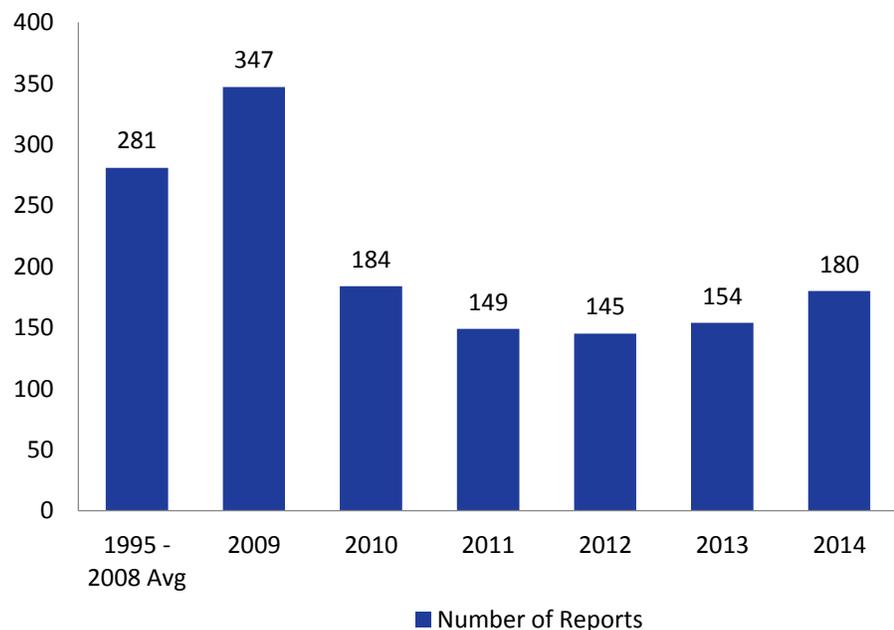
Origin of Reports Received

Of reports received in calendar year 2014, approximately 66% came through the toll-free telephone hotline and 24% 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 180 initial hotline reports in calendar year 2014. As shown in Figure 1, the number of hotline reports in 2014 was similar to the number in 2010; the number of hotline reports was relatively consistent from 2011 through 2013. The increase in 2014 was attributed, in part, to an e-mail the Secretary of State sent to all state employees in December 2013, encouraging them to use the hotline when they are aware of potential fraud, waste or abuse of state funds.

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 2014, 42% of reports were related to possible fraud, theft, or kickbacks, policy or procedural issues, and work environment issues. Additionally, 35% of reports were determined insignificant or unrelated to fraud, waste or abuse of state funds. Figure 2 provides descriptions of our classifications, the number of reports received for each classification, and the percentage of total reports received in 2014.

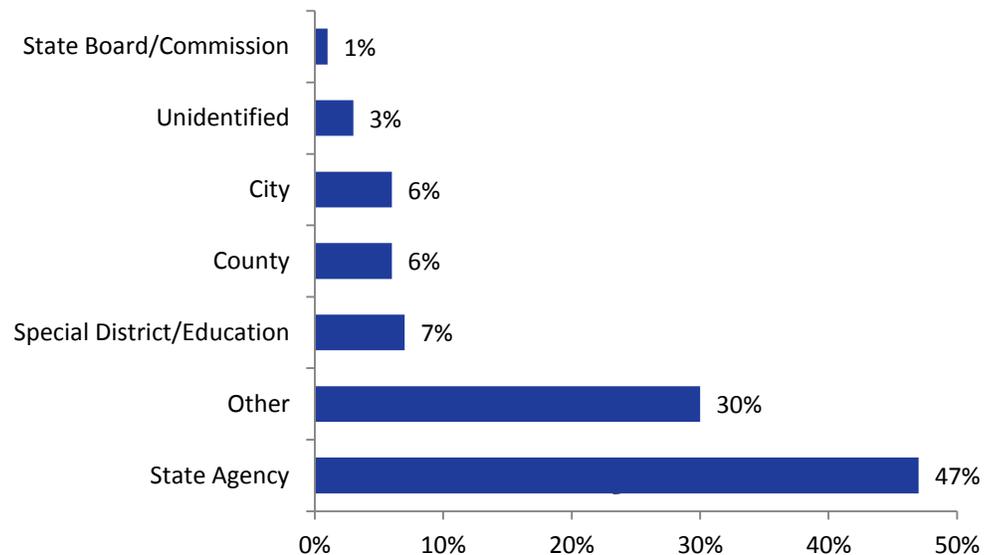
Figure 2: Nature of Reports Received

Classification	Description	Number of 2014 Reports	Percent of 2014 Reports
Insignificant/Unrelated	Reports determined insignificant or unrelated to state funds.	61	35%
Fraud, Theft or Kickback	Reports concerning fraud, false claims, embezzlement, theft, false reports, corrupt practices and kickbacks.	26	14%
Policies and Procedures	Reports concerning state policies and procedures and requests for information.	26	14%
Work Environment Issues	Reports concerning unethical or improper behavior, discrimination, wrongful termination or conflicts of interest.	26	14%
Financial Management	Reports concerning accounting practices, audits and tax issues.	16	9%
Scams	Reports related to a scam (e.g., internet scam).	12	7%
Time Theft	Reports regarding state employees untruthfully claiming time worked.	6	3%
State Vehicle Misuse	Reports regarding misuse of a state vehicle.	6	3%
Contracting	Reports concerning public contracting.	1	1%
TOTAL		180	100%

Subjects of Hotline Reports

Figure 3 details the subject of the hotline reports we received in 2014. With the exception of “Other” (30%) and unidentified (3%), the entities shown typically receive state funds. Therefore, 67% of reports received in 2014 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 180 hotline reports submitted during calendar year 2014, along with five open reports from 2013.

2014 Hotline Reports

- Sixty 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.
- Fifty-eight reports were closed after we provided the reporter with alternative contacts who could better handle their concern.
- Forty-four reports were referred to another public body that could appropriately investigate the allegation.
- Fourteen 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.
- Four reports remain open and may result in further investigation.

2013 Hotline Reports

The five reports that remained open at the end of 2013 were resolved as of the date of this report.

- One report was closed after we determined it did not involve waste, inefficiency, or abuse of state funds; and the caller was referred to an appropriate contact.
- Two reports were referred to another public body that could appropriately investigate the allegation.
- Two reports required review to determine whether described concerns should be investigated. For these reports, the allegations were not substantiated. As a result, we did not identify findings relating to the allegations. However, we did issue a Management Letter to the agency for one of the two reports.

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.

Audit Team

V. Dale Bond, CPA, CISA, CFE

Sandra K. Hilton, CPA

Jamie N. Ralls, CFE

Karen M. Peterson

Alan Bell, MBA, CFE

Melaney Scott, MBA

Olivia Reched, MPA

Wendy Kam, MBA

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

website: <http://www.sos.state.or.us/audits/>

phone: 503-986-2255

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