

The background of the top half of the page features a large, light blue, semi-transparent seal of the State of Oregon. The seal is circular and contains an eagle with wings spread, a ship on the water, a plow, and a sheaf of wheat. The text "SEAL OF THE STATE OF OREGON" is written around the perimeter, and "1859" is at the bottom. The words "THE UNION" and "ORIGINS" are also visible within the seal's design.

Government Waste Hotline Report

Calendar Year 2016

Secretary of State
Dennis Richardson

Audits Division, Director
Kip Memmott

Report 2017-15
August 2017



2016 Oregon Secretary of State Government Waste Hotline Report

About the Hotline

Since 1995, the Hotline has been a place for public employees and members of the public to report waste, inefficiency or abuse by state agencies, employees or those under contract with state agencies. Since its inception, Audits Division staff have identified about \$16 million in questioned costs.



201 Hotline Reports Received in 2016

What was the nature of Hotline reports?



What did we do with each Hotline report?



- 38%** closed after caller was provided with alternative contacts to better handle their concern.
- 22%** referred to another public body that could appropriately investigate the allegation.
- 21%** closed after we determined reports were: requests for information; did not involve waste, inefficiency, or abuse of state funds; or the caller did not respond to requests for additional information.
- 14%** of reports required further review to determine whether the described concerns involved waste, inefficiency, or abuse of state funds. For most of these reports, the allegations were not substantiated.
- 4%** remain open at the time of this report and may result in further investigation.

Secretary of State Audit Report

Dennis Richardson, Secretary of State

Kip R. Memmott, Director, Audits Division



Government Waste Hotline: January – December 2016

Summary

This report summarizes activity reported through the Oregon Secretary of State Government Waste Hotline (hotline) in calendar year 2016. 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 online reporting, email, and telephone calls directly to the Secretary of State, Audits Division (division). Division staff review 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.

Individuals who contact the hotline receive a case number and their information is recorded in a database. We refer to these contacts as "reports." The hotline received 201 initial reports in calendar year 2016. The nature of the reports varied from requests for information to reports that may warrant further investigation. We followed up and closed 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. Ten reports from calendar year 2016 remain open and may result in a review, audit or investigation.

Contact the Hotline

1-800-336-8218

<http://fraud.oregon.gov>

<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) 2016 Global Fraud Study (study), tips are consistently the most common fraud detection method.¹ The study found 39.1% of frauds were uncovered from tips, and the most common source of tips was from employees. According to the study, 10.5% of the reported fraud cases were related to government and public administration, which was the second leading industry behind banking and financial services. The study also found the three most common fraud schemes used in government and public administration were corruption, billing, and expense reimbursements. The median loss in government due to fraud was \$133,000.

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) annually send out an email to 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.

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.

¹ *2016 Report to the Nations on Occupational Fraud and Abuse*. Copyright 2016 by the Association of Certified Fraud Examiners, Inc., pages 20, 26, 27, 31, 34, 35, 36. Available at <http://www.acfe.com/rtn2016/resources/downloads.aspx>

State law provides confidentiality for the identity of any person making a report through the hotline (ORS 177.180). Other channels of reporting issues may not offer anonymity to individuals making the reports.

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. For calendar year 2016, we made one referral to the Oregon Government Ethics Commission and no referrals to law enforcement.

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 required reporting requirements, we prepare this annual report of summary level information.

Review Process

We contract with a third party that provides 24-hour call center services and case management software. All hotline reports are logged in a database that selected division staff access through case management software. We conduct an initial review of each report of waste, inefficiency or abuse and determine which reports to investigate further. 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 to the appropriate public entity. If appropriate, for reports that do not fall under the authority of the hotline, we provide individuals who reported a concern to the hotline with alternative contacts for reporting their concerns.

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.

Hotline Resources

The division's Hotline Team consists of two audit managers and six auditors selected to review hotline reports. The hotline is monitored on an ongoing basis by one team member assigned to be the first evaluator of reports. The full team meets every two weeks, as needed, to assess new reports and propose action to address the reports. Reports are assigned to team members for follow up. On alternate weeks, as needed, the full team

meets with the division director and two deputy directors to discuss any reports the hotline team considered significant enough to warrant further attention. Decisions are made in this meeting about furthering the work or closing the report.

Five of the eight Hotline Team members are Certified Fraud Examiners, four have master's degrees, and one is a Certified Public Accountant.

During 2016, staff worked about 1,700 hours to administer the hotline. Each report takes time to review to determine the disposition; some reports also include numerous documents. As shown in the *Report Resolution* section, most reports the hotline received were not related to the purpose of the hotline. More specifically, approximately 74% of the reports were unrelated or not substantiated, 22% were referred to other public bodies, and 4% were undetermined as of the date of this report.

Results

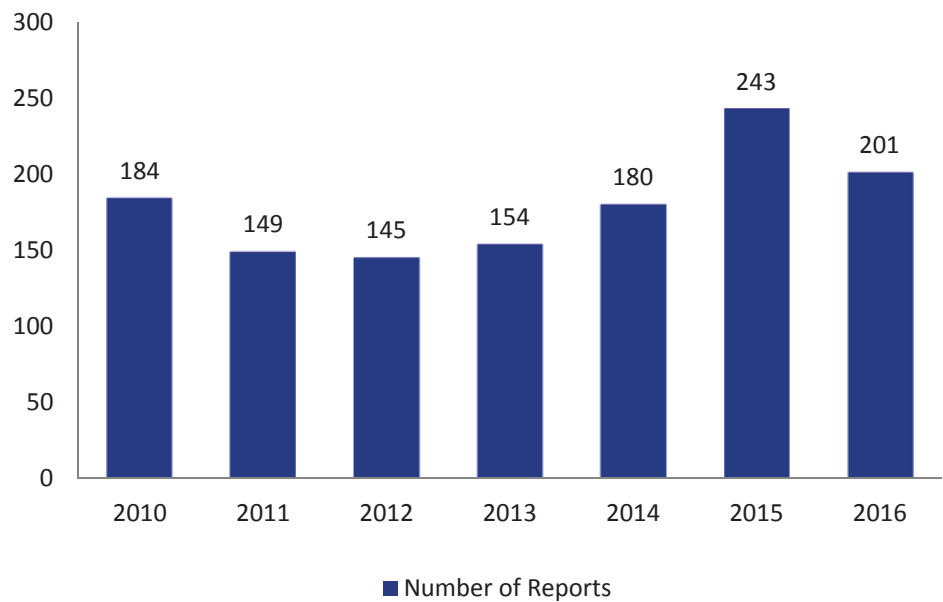
Origin of Reports Received

Of reports received in calendar year 2016, approximately 58% came through the toll-free telephone hotline and 30% 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 201 initial hotline reports in calendar year 2016. As shown in Figure 1, the number of hotline reports was relatively consistent from 2011 through 2013. The increase in 2014 and 2015 was attributed, in part, to emails sent to all state employees in December 2013 and March 2015 encouraging employees to use the hotline when they are aware of potential fraud, waste or abuse of state funds. Call activity is variable, which may explain the decrease in 2016.

Figure 1: Number of Reports Received



Nature of Reports Received

We classify reports received through the hotline into eight classifications. Figure 2 provides descriptions of our classifications, number of reports received for each classification, and the percentage of total reports received in 2016.

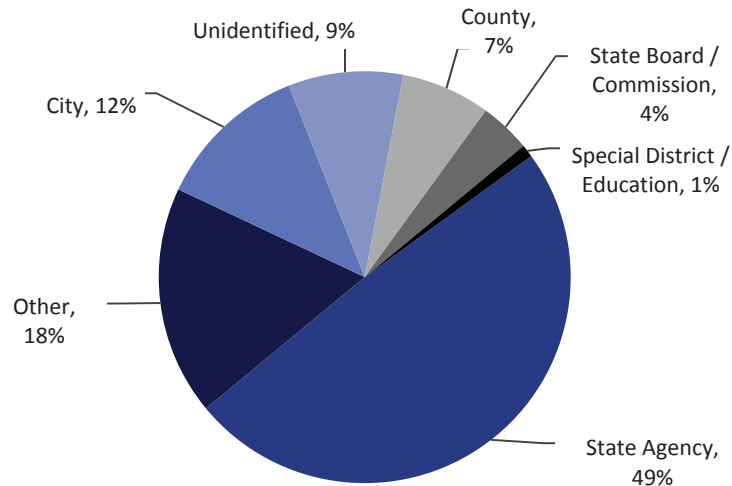
Figure 2: Nature of Reports Received

Classification	Description	Number of 2016 Reports	Percent of 2016 Reports
Insignificant/Unrelated	Reports determined insignificant or unrelated to state funds.	57	28%
Policies and Procedures	Reports concerning state policies and procedures and requests for information.	49	24%
Financial Management	Reports concerning accounting practices, audits and tax issues.	40	20%
Work Environment Issues	Reports alleging unethical or improper behavior, discrimination, wrongful termination or conflicts of interest.	16	8%
Fraud, Theft or Kickback	Reports alleging fraud, false claims, embezzlement, theft, false reports, corrupt practices and kickbacks.	14	7%
Contracting	Reports concerning public contracting.	13	6%
Time Theft	Reports alleging state employees untruthfully claimed time worked.	7	4%
Scams	Reports related to a scam (e.g., internet scam).	5	3%
TOTAL		201	100%

Subjects of Hotline Reports

Figure 3 details the subject or entity of the hotline reports we received in 2016. With the exception of “other” and “unidentified,” the entities shown typically receive state funds. Approximately 73% of reports received in 2016 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 contact information, division staff may contact them directly to obtain additional information. If callers report anonymously through the online reporting application, we are able to communicate through the application to request necessary additional information. However, callers do not always respond to this additional request for information.

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 report. 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, generally only the content of the report is referred.

We resolve reports by performing reviews, referring reports to contacts at other public bodies for their consideration and review, referring individuals to appropriate contacts, and providing requested information.

Below, we describe how we resolved the 201 hotline reports submitted during calendar year 2016, along with six open reports from 2015.

2016 Hotline Reports

- 77 reports were closed after we provided the caller with alternative contacts who could better handle their concern.
- 43 reports were referred to another public body that could appropriately investigate the allegation.
- 43 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.
- 28 reports required further review to determine whether the described concerns involved waste, inefficiency, or abuse of state funds. For most of these reports, the allegations were not substantiated.
- 10 reports remain open and may result in further investigation.

2015 Hotline Reports

Six reports remained open at the end of 2015. Their disposition as of the date of this report is described below.

- Two reports were reviewed by state agencies and we agreed their response was appropriate.
- One report resulted in a management letter.
- One report was referred as a potential performance audit topic.
- Two reports remain open. One report was referred to another state agency and the other we are investigating. Our investigation was delayed for a period of time due to higher priority audits. We anticipate concluding this investigation in 2017.

About the Secretary of State Audits Division

The Oregon Constitution provides that the Secretary of State shall be, by virtue of the 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 is authorized to audit all state officers, agencies, boards, and commissions and oversees audits and financial reporting for local governments.

Audit Team

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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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