



# Secretary of State Oregon Audits Division



## Government Waste Hotline

January to December 2018

May 2019  
**2019-22**

Secretary of State **Bev Clarno**  
Audits Division Director **Kip Memmott**



# Secretary of State Report Highlights

May 2019

## Government Waste Hotline January to December 2018

### Report Highlights

Since the inception of the Oregon Secretary of State Government Waste 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. During calendar year 2018, the hotline received 317 initial reports. Of those, 27 required further investigation, though the majority of the allegations were not substantiated. Two reports remain open and may result in a management letter to the involved agencies once we complete our investigations.

### Background

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 online reporting, email, and telephone calls directly to the Secretary of State Audits Division. Division staff review each hotline report and determine which ones to investigate further.

### Purpose

This report summarizes activity reported through the Oregon Secretary of State Government Waste Hotline in calendar year 2018. As required by Oregon Revised Statute 177.180, we describe the number, nature, and resolution of hotline reports received during the year.

## Introduction

As reported in the Association of Certified Fraud Examiners' (ACFE) 2018 Global Fraud Study, tips are consistently the most common fraud detection method.<sup>1</sup> The study found 40% of frauds were uncovered from tips, with employees being the most common source of tips. According to the study, 10.8% of the reported fraud cases were related to government and public administration, which was the third leading industry behind banking and financial services, and manufacturing. The study also found the three most common fraud schemes used in government and public administration were: corruption, noncash (e.g., inventory or confidential customer information), and billing. The median loss in government due to fraud was \$110,000.

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, notices are posted in state offices that explain the purpose of the hotline and display the hotline telephone number; a hotline page is presented on the Oregon Secretary of State website;<sup>2</sup> and the Secretary sends an annual email to state employees about the hotline. Additionally, Secretary of State Audits 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, walk-ins, 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. For calendar year 2018, we made two referrals to the Oregon Government Ethics Commission.

We are also required to prepare and submit to the Legislature 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.

---

<sup>1</sup> 2018 Report to the Nations on Occupational Fraud and Abuse. Copyright 2018 by the Association of Certified Fraud Examiners, Inc., pages 16-21, 24-25. Available at: [http://www.acfe.com/report-to-the-nations/2018/?utm\\_source=acfehomepage&utm\\_medium=hero&utm\\_campaign=2018RTTN#download](http://www.acfe.com/report-to-the-nations/2018/?utm_source=acfehomepage&utm_medium=hero&utm_campaign=2018RTTN#download)

<sup>2</sup> <http://sos.oregon.gov/audits/Pages/fraud.aspx>

## Overview of Review Process and Source of Reports

We contract with a third party that provides 24-hour call center services and case management software. All hotline reports are logged into a database that selected division staff access through the 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 an audit or investigation. Other reports do not involve claims of waste, inefficiency, or abuse of state funds and 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 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 the involved state agency or public body. If requested, we also provide a copy of the report to the person who contacted the hotline.

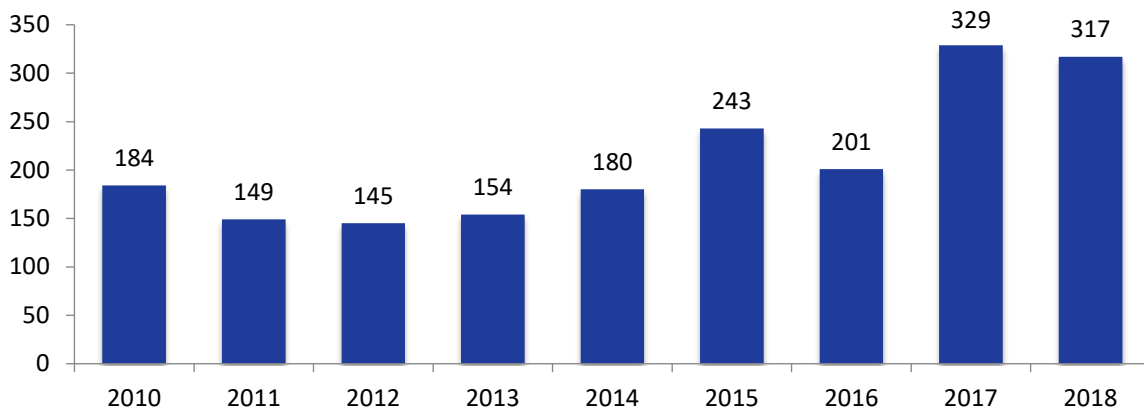
### Hotline resources

The hotline is administered by an audit manager who is a Certified Fraud Examiner and a lead auditor selected to review and respond to hotline reports. The majority of reports are addressed by the lead and the audit manager. If a hotline report seems to be of a larger scale, we assign staff, including other certified fraud examiners, to help review those reports.

### Historical metrics

Figure 1 shows the number of hotline reports received since 2010. The volume of reports tends to be higher during election cycles, after publicized instances of fraud, and after public officials (such as the Governor or the Secretary of State) send emails promoting the hotline to all state employees.

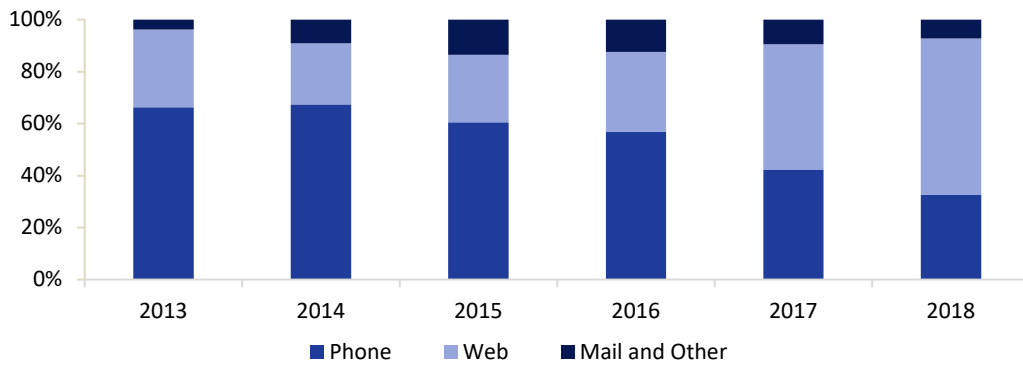
**Figure 1: Number of reports, 2010 - 2018**



### Report source

Figure 2 illustrates an increasing number of hotline reports are being made online rather than by phone or mail. Web submissions increased from 30% in 2013 to 60% of all submissions in 2018. The remaining reports were received through other methods such as email, regular mail, walk-ins, and telephone calls made directly to the division.

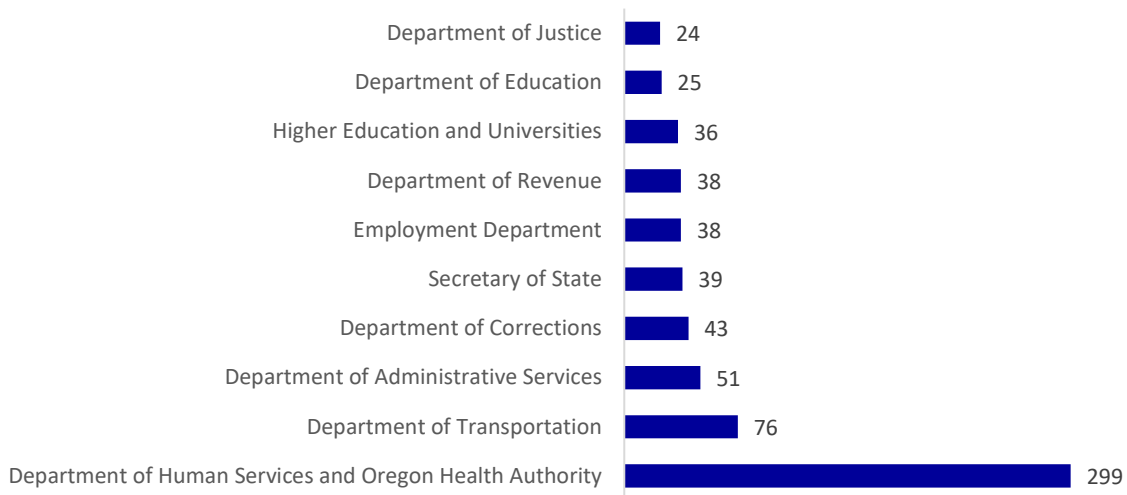
**Figure 2: Source of reports, 2013 - 2018**



## Reports by state agency

Figure 3 lists the agencies that are the most frequent subjects of hotline reports. The Department of Human Services and Oregon Health Authority are separate agencies, but are combined in the figure because reports tend to relate to programs shared by both agencies. While this chart is not a perfect indicator of which agencies are subjects of true waste, inefficiencies, or abuse because reports are not always substantiated, it does indicate those agencies which are the subject of the most concerns.

**Figure 3: Reports by state agency, 2013 – 2018**



Excludes agencies with fewer than 20 reports.

The Secretary of State’s office was the subject of 39 reports from 2013 to 2018. Most of these reports were related to allegations of potential voter fraud and possible improper registration of private businesses within the state of Oregon. Accordingly, we referred these reports to the Elections Division and the Corporation Division for further investigation. Five reports related to scams and complaints about non-state entities and four reports requested audits of other state agencies. A small number of reports expressed political opinions regarding the Secretary of State as an elected official, such as disagreements with policy decisions. None of the reports were related to fraud, waste, or abuse of state funds or resources. In the event we receive such a report, we would consider referring it to an independent party, such as the Oregon Department of Justice, for investigation, or refer the reporter to the department directly.

# 2018 Results

## Nature of reports received

We classify reports received through the hotline as shown in Figure 4. The most common are work environment reports, which include human resources-related reports such as time theft, hiring decisions, discrimination, and improper behavior by peers or managers.

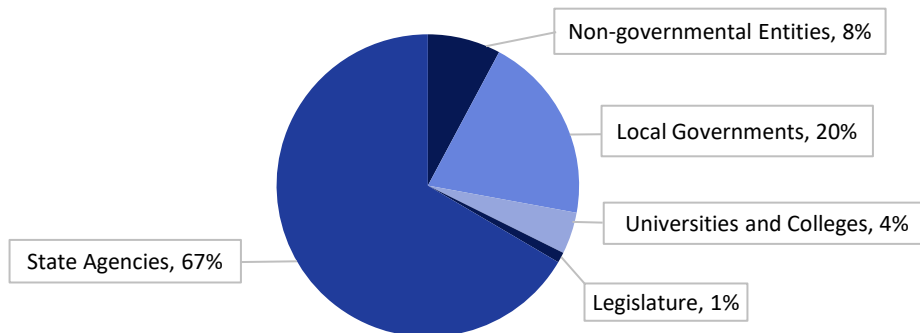
Figure 4: Nature of reports received in 2018

Classification	Description	Number of 2018 reports	Percent of 2018 reports
<b>Work Environment</b>	Reports alleging improper behavior, discrimination, wrongful termination, time theft, or unsafe environments in the workplace	83	26%
<b>Business Practices</b>	Reports concerning state business practices and public contracting, policies and procedures, and requests for information	69	22%
<b>Unrelated/Insignificant</b>	Reports determined unrelated or insignificant to state funds or resources	60	19%
<b>Fraud, Theft, or Ethics</b>	Reports alleging fraud, falsification or destruction of information, embezzlement, theft, corrupt practices, conflict of interest, or kickbacks	51	16%
<b>Financial Management</b>	Reports concerning accounting practices, audits, and tax issues	44	14%
<b>Elections</b>	Reports concerning election systems or voter fraud	10	3%
<b>TOTAL</b>		<b>317</b>	<b>100%</b>

## Subjects of reports received

Figure 5 details the types of entities which were the subject of hotline reports received in 2018. Approximately 78% of the reports were related to entities with the potential to receive state funds. Non-governmental entities, which include private citizens and businesses, are less likely to receive state funds.

Figure 5: Hotline report subjects, 2018



## Report resolution

Our ability to take action on a report depends on the specificity and nature of information provided. If reporters provide their contact information, we may contact them directly to obtain additional information. If reporters are anonymous through the online reporting application, we are able to communicate through the application to request necessary additional information. However, if concerns are reported anonymously via mail or fax, reporters do not always provide sufficient information allowing us to contact them for additional information.

We have flexibility in how hotline reports are addressed. Specifically, we can refer reports received through the hotline to other public bodies (i.e., state government, local governments, and special purpose governments) more appropriate to address 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 and the reporter's identity is withheld.

We resolve reports by performing reviews and reporting findings, referring reports to contacts at other public bodies for their consideration and review, referring reporters to appropriate contacts, and providing requested information. Below, we describe how we resolved the 317 hotline reports submitted during calendar year 2018, along with three open reports from 2017.

### **2018 hotline reports**

- 200 reports were closed after we provided the reporter with alternative contacts more appropriate to address their concerns, such as a state agency's human resources department or a local government's board or commission. Several of these cases did not involve state funds or resources or were personal legal matters outside the purview of the hotline.
- 59 reports were referred directly to another public body that could more appropriately investigate the allegation.
- 16 reports were closed after the reporter did not respond to our requests for additional information needed to proceed with an investigation.
- 15 reports were high-level suggestions for improving efficiencies, not allegations of wrongdoing. These were added to the division's internal database of ideas for future performance audits.
- 25 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.
- Two reports remain open and may result in a management letter to the involved agency.

### **2017 hotline reports**

Three reports from 2017 remained open at the beginning of 2018. Their disposition as of the date of this report is described below.

- One report resulted in a management letter.
- Two reports were referred as potential performance audit topics after preliminary research.



## Hotline Team

Mary Wenger, CPA, Deputy Director

V. Dale Bond, CPA, CISA, CFE, Audit Manager

Kari Mott, CPA, MBA, Principal Auditor

## 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 performs 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 has constitutional authority to audit all state officers, agencies, boards and commissions as well as administer municipal audit law.

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

### Oregon Audits Division

255 Capitol St NE, Suite 500 | Salem | OR | 97310

(503) 986-2255

[sos.oregon.gov/audits](http://sos.oregon.gov/audits)