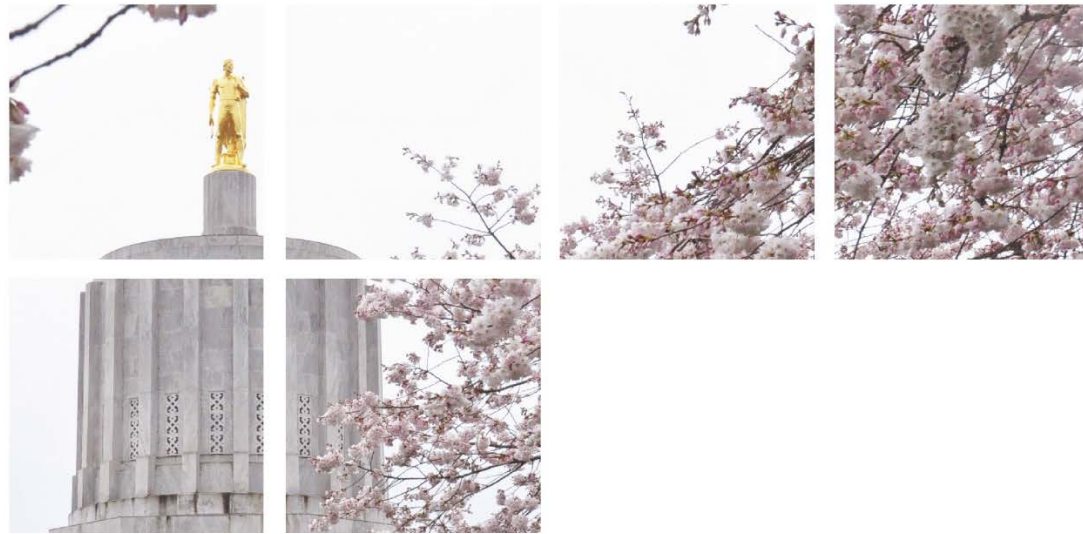




Secretary of State Oregon Audits Division



Government Waste Hotline January to December 2017

August 2018
2018-24

Secretary of State Dennis Richardson
Audits Division Director Kip Memmott

About the Secretary of State Audits Division

The Oregon Constitution provides that the Secretary of State shall be, by virtue of his 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

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(503) 986-2255
sos.oregon.gov/audits

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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) 2018 Global Fraud Study, tips are consistently the most common fraud detection method.¹ The study found 40% of frauds were uncovered from tips, and the most common source of tips was from employees. 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, 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 \$125,000.

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 presence of a reporting hotline has a substantial positive impact on how fraud is discovered. According to the ACFE's study, organizations with a hotline saw a much higher likelihood 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:

1. Notices are posted in state offices that explain the purpose of the hotline and prominently display the hotline telephone number.
2. A hotline page is presented on the Oregon Secretary of State website at <http://sos.oregon.gov/audits/Pages/fraud.aspx>.
3. The Secretary sends an annual email to state employees about the hotline. Additionally, some 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.

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 2017, we made two referrals 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.

¹ 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

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.

Hotline Review Process

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 case management software. We conduct an initial review of each report of waste, inefficiency, or abuse and determine which reports to investigate further based on statutory requirements and parameters.

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 with alternative contacts for reporting.

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.

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 our requests for additional information.

The division has flexibility in how hotline reports are addressed. 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 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.

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.

Hotline Resources

The hotline is administered by an audit manager and auditors selected to review hotline reports. The audit manager and several staff who review hotline reports are Certified Fraud Examiners (CFEs). The hotline is monitored on an ongoing basis by a staff auditor who is the first evaluator of reports. New reports are assessed and assigned to auditors for follow up. The audit manager oversees the disposition of reports and meets with division deputy directors to discuss reports considered significant enough to warrant further attention. Decisions are made about furthering the work or closing the report.

Hotline Metrics

The following charts include statistics from hotline reports received by the division from 2013 through 2017. Figure 1 shows the number of reports² received since the hotline’s inception. Based on our review, the call volume may correspond to the election cycle and to issues covered by the news media. For example, in 2007, highly publicized frauds occurred at the Department of Corrections and Department of Education. Although not reported to the hotline, these issues may have served as additional advertisements and publicity for the role and necessity of the hotline, which in turn may have created more calls. In addition, since public assistance fraud is reported to another state entity, in 2010 we asked the third-party administrator to screen out those calls, resulting in a drop in the call volume.

Figure 1: Number of Reports, 1996 – 2017

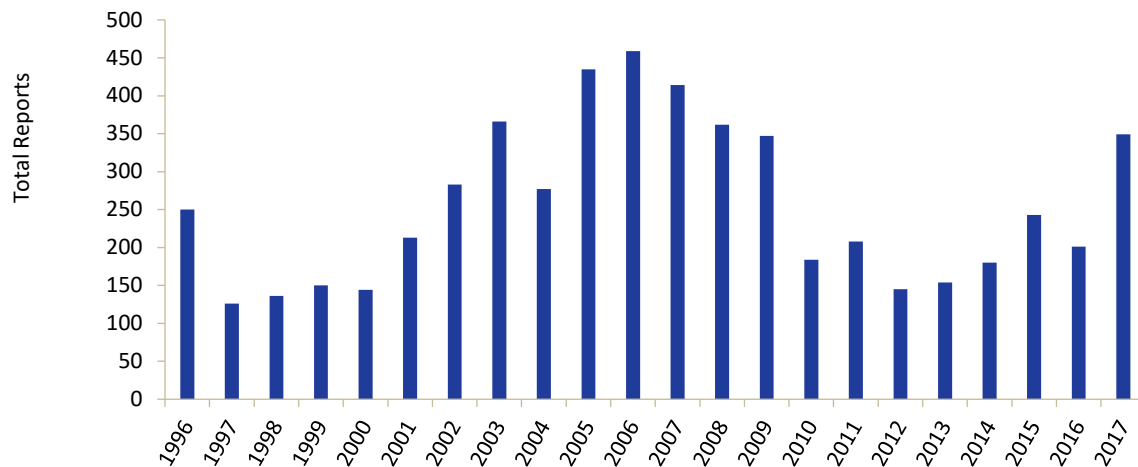
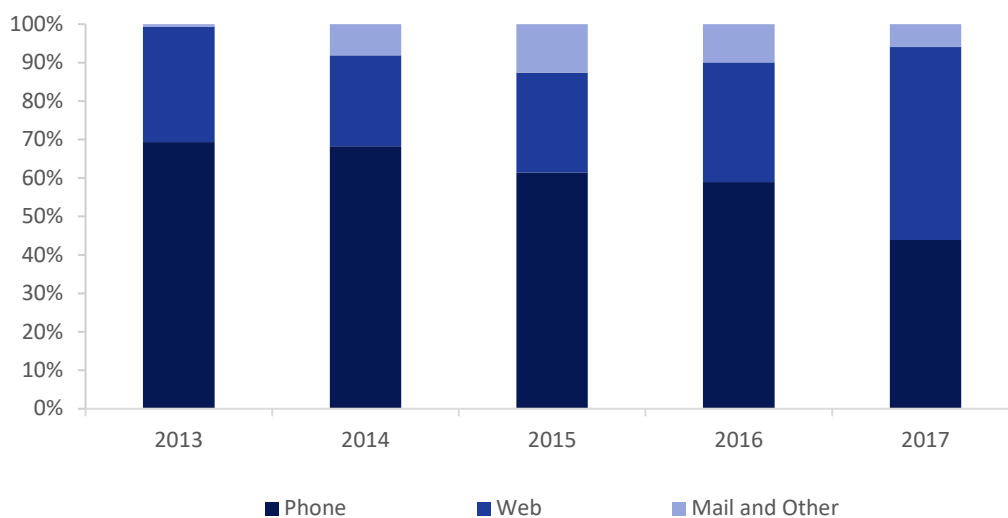


Figure 2 shows that more and more hotline reports are made online rather than by phone and mail. Web submissions increased from 30% in 2013 to 50% of all submissions in 2017.

Figure 2: Source of Reports, 2013 – 2017



² Hotline reports include calls, web submissions, emails, and hardcopy submissions.

Figure 3: Resolution of Reports, 2013 – 2017

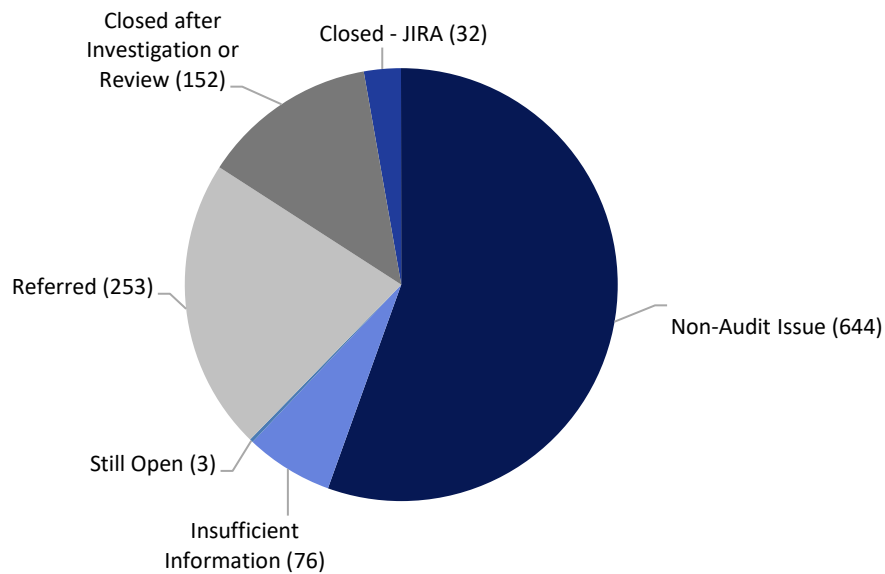


Figure 3 shows the total number of reports received by the hotline from 2013 through 2017 and the final resolution of those reports. The following describes each of these categories:

Non-audit Issue – More than half the reports are for issues that are outside the jurisdiction of the hotline. For example, complaints or allegations against a local homeowner’s association or complaints against a private individual or business.

Referrals - The second largest category represents reports the division referred to other entities to investigate. As part of the hotline triage process, HR-related hotline reports are referred to the pertinent state agency internal auditor or HR unit to address. Examples include allegations of workplace harassment or employee time theft. Referrals also include recommendations that the caller directly contact another party who can better address their issue. For example, we may suggest a caller contact the Civil Rights Division at the Bureau of Labor and Industries if the caller believes they have been illegally discriminated against on the basis of a protected class. This division has staff assigned specifically to address violations of employees’ rights. Referrals are generally seen as a more efficient and effective way to address a caller’s concern.

Reports Investigated or Reviewed - The third largest category represents reports we either investigated or reviewed. A review has more limited procedures than an investigation. Our investigations and reviews determined nearly half of these reports were without merit or unsubstantiated. Approximately one-third were subsequently referred to or addressed by the appropriate authority, such as an agency or municipality. Further investigation substantiated 22 reports, resulting in the issuance of a letter or audit report

Remaining categories - JIRA is the Audits Division’s database for documenting and maintaining potential audit topics. Items listed as “Closed to JIRA” represent reports that do not contain specific information to investigate, but represent a broader underlying issue that may be an appropriate subject for a performance audit. Recording the call in JIRA marks the issue for future consideration as a potential audit topic. Other remaining reports include those closed due to insufficient information provided by the caller. Three calls from 2017 remain open and are under review.

Figure 4: Hotline Report by Subject, 2013-2017

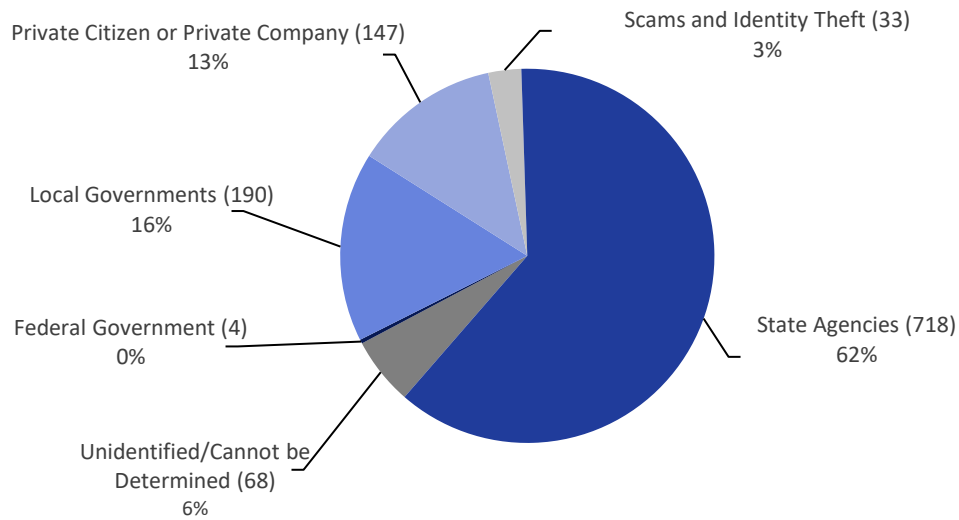


Figure 4 shows the subject matter of the hotline reports. As expected, most reports pertain to state agencies.

Figure 5: Hotline Reports by State Agency, 2013-2017

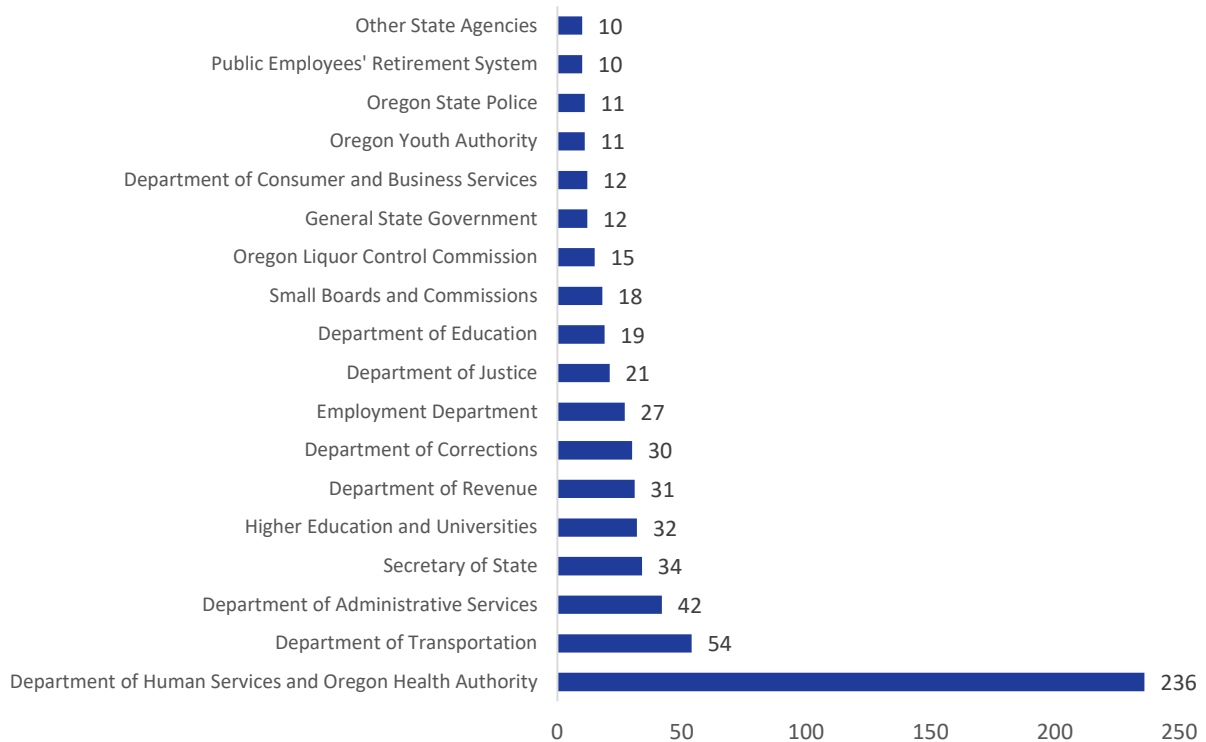


Figure 5 represents the number of reports received by the applicable state agency. This does not include agencies with less than 10 reports between 2013 and 2017. Of the 34 reports pertaining to the Secretary of State, 25 were non-audit issues. These represent general inquiry reports submitted to the hotline. The Department of Human Services and Oregon Health Authority (including the Oregon State Hospital) are technically two separate agencies, but are combined above because reports tend to relate to issues shared by both agencies.

2017 Results

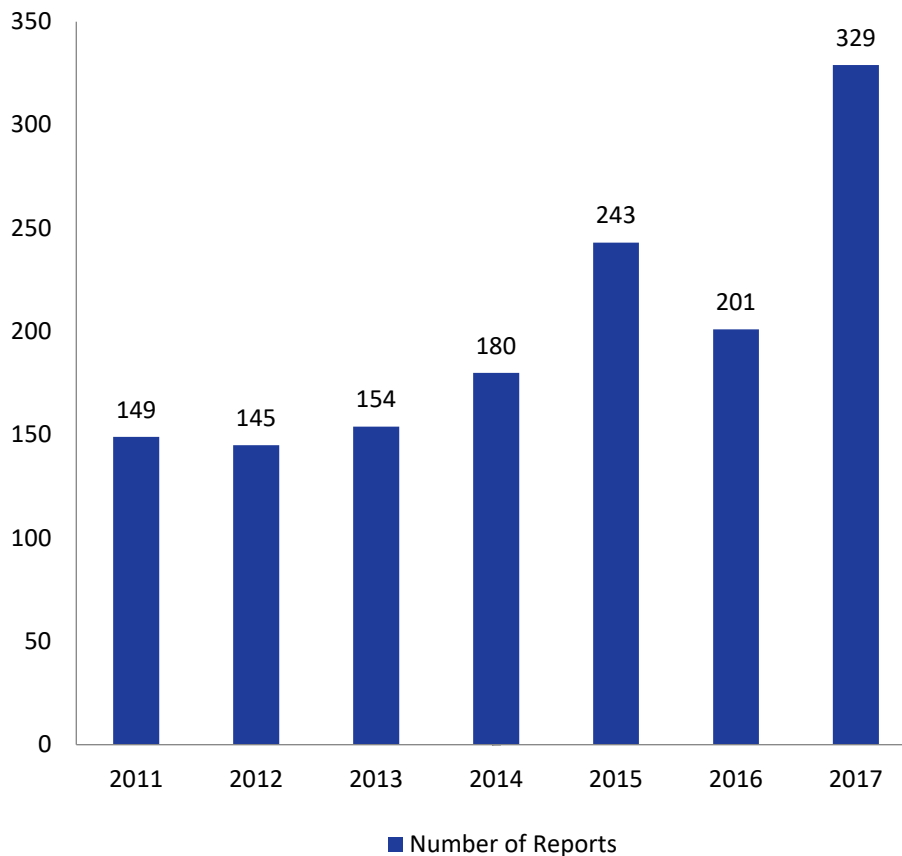
Origins of Reports Received

Of reports received in calendar year 2017, approximately 42% came through the toll-free telephone hotline and 48% came through online reporting. The remaining reports were received through other methods such as email, regular mail, and telephone calls directly to the division. We received reports from state employees and citizens.

Number of Reports Received

We received 329 initial hotline reports in calendar year 2017. As shown in Figure 6, 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. The increase in call activity in 2017 may be attributed to the Secretary of State publicizing the hotline and high-profile audits issued in 2017, including an Auditor Alert³ addressing millions of state and federal funds spent on Medicaid benefits for ineligible recipients.⁴

Figure 6: Number of reports received



³ The Oregon Health Authority: Auditor Alert <https://sos.oregon.gov/audits/Documents/medicaid-auditor-alert.pdf>

⁴ Oregon Health Authority Should Improve Efforts to Detect and Prevent Improper Medicaid Payments: <https://sos.oregon.gov/audits/Documents/2017-25.pdf>

Nature of 2017 reports received

There are eight hotline classifications. Figure 7 provides descriptions of our classifications, number of reports received for each classification, and the percentage of total reports received in 2017.

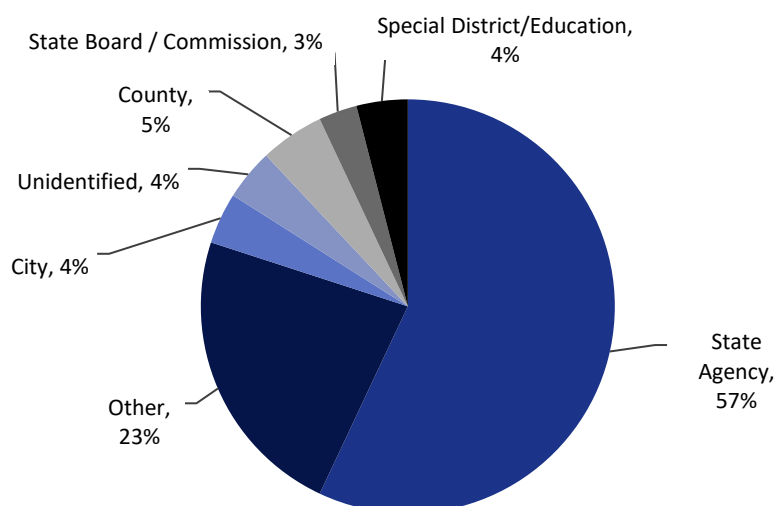
Figure 7: Subject of reports received in 2017

Classification	Description	Number of 2017 Reports	Percent of 2017 Reports
Policies and Procedures	Reports concerning state policies and procedures and requests for information.	127	39%
Financial Management	Reports concerning accounting practices, audits, and tax issues.	86	26%
Insignificant/Unrelated	Reports determined insignificant or unrelated to state funds.	38	12%
Fraud, Theft, or Kickback	Reports alleging fraud, false claims, embezzlement, theft, false reports, corrupt practices, and kickbacks.	24	7%
Work Environment Issues	Reports alleging unethical or improper behavior, discrimination, wrongful termination, or conflicts of interest.	22	7%
Contracting	Reports concerning public contracting.	11	3%
Scams	Reports related to a scam (e.g., internet scam).	11	3%
Time Theft or State Vehicle Misuse	Reports alleging state employees untruthfully claimed time worked or misused state vehicles.	10	3%
TOTAL		329	100%

Subjects of 2017 hotline reports

Figure 8 details the subject or entity of hotline reports received in 2017. Approximately 73% of the reports were related to entities with the potential to receive state funds. The “other” and “unidentified” categories do not receive state funds.

Figure 8: Hotline report subjects, 2017



2017 Hotline Report Resolution

Below, we describe how we resolved the 329 hotline reports submitted during calendar year 2017, along with the 12 open reports from 2015 and 2016.

2017 hotline reports

- 113 reports were closed after we provided the caller with alternative contacts who could better handle their concern.
- 75 reports were referred to another public body that could appropriately investigate the allegation.
- 61 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.
- 77 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.
- Three reports remain open and may result in further investigation.

2016 and 2015 hotline reports

Twelve reports from 2016 and 2015 remained open at the beginning of 2017. Their disposition as of the date of this report is described below.

- Five reports resulted in management letters and a report.
- Three reports were reviewed and the issues were not substantiated.
- Two reports involved issues that had other avenues in place for resolution. This information was communicated to the individuals reporting the concerns.
- One report was referred as a potential performance audit topic.
- One report was reviewed by the public body, and we agreed with their response.

Conclusion

Oregon Revised Statute 177.180 requires us to report annually on the Government Waste Hotline. In these reports, we describe the number, nature, and resolution of hotline reports received during the year.

During 2018, we reviewed the administration of the hotline and are implementing changes to improve the efficiency and effectiveness of administering the hotline. We are making changes that include fewer meetings and resources and more timely review of reports. Additionally, we are currently taking steps to enhance communications about the purpose of the hotline, including improving our website content.