



Secretary of State **Oregon Audits Division**



Government Waste Hotline January to December 2019

May 2020
Report 2020-19

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

Executive Summary

Government Waste Hotline

January to December 2019

May 2020

Report Summary

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.

Calendar Year 2019

- » The hotline received 272 initial reports.
- » Of those, 44 required further investigation, although the majority of allegations were not substantiated.
- » Two reports remain open and may result in a management letter to the involved agencies.
- » Of the 44 reviewed, 27 pertained to the business practices and financial management of state agencies.
- » Nine alleged fraud or theft by the misuse of resources or conflict of interest ethic violations on the part of a specific state employee.

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 2019. As required by Oregon Revised Statute 177.180, we describe the number, nature, and resolution of hotline reports received during the year.

The Oregon Secretary of State Audits Division is an independent, nonpartisan organization that conducts audits based on objective, reliable information to help state government operate more efficiently and effectively. The summary above should be considered in connection with a careful review of the full report.

Introduction

As reported in the Association of Certified Fraud Examiners' (ACFE) 2020 Global Fraud Study, tips are consistently the most common fraud detection method.¹ The study found 43% of frauds were uncovered from tips, with employees being the most common source of tips. According to the study, 11.5% 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 four most common fraud schemes used in government and public administration were: corruption, billing, noncash (e.g., inventory or confidential customer information), and payroll. The median loss in government due to fraud was \$100,000.

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 that 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;² 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.

The Legislature requires an annual summary report on hotline activity

The Government Waste Hotline was established in 1995 for 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.³

We are required to notify the Oregon Government Ethics Commission if we find potential violations of 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 2019, 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.

¹ 2020 Report to the Nations on Occupational Fraud and Abuse. Copyright 2020 by the Association of Certified Fraud Examiners, Inc., pages 4, 27, and 30, 24-25. Available at: <https://www.acfe.com/report-to-the-nations/2020/>

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

³ See ORS 177.180

Overview of Review Process and Source of Reports

To operate the hotline, 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. For reports that do not fall under the authority of the hotline, if appropriate, we provide individuals with alternative contacts for reporting their concerns.

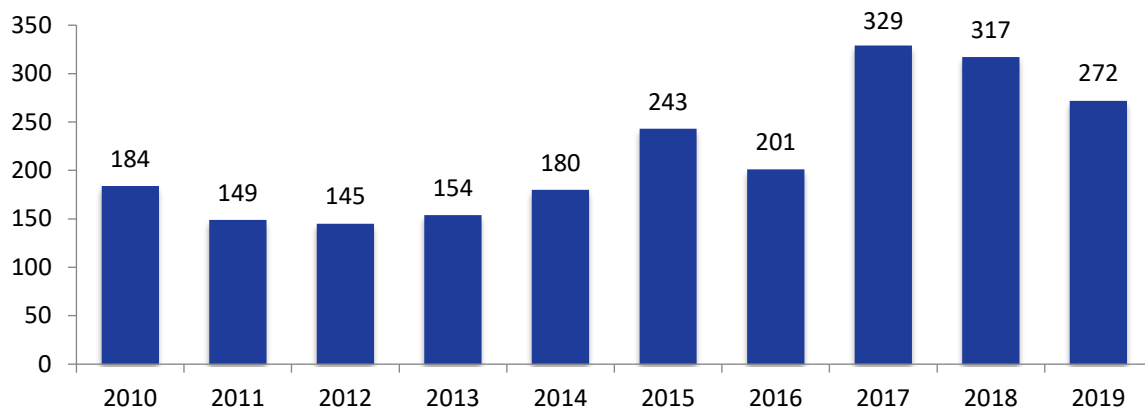
If, after completing an investigation, we find that an officer, employee, or contractor of a state agency or public body was involved in activities constituting waste, inefficiency, or abuse, we prepare a written report to the involved state agency or public body. If requested, we also provide a copy of the report to the person who contacted the hotline.

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 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.

Hotline reports have increased in recent years

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.

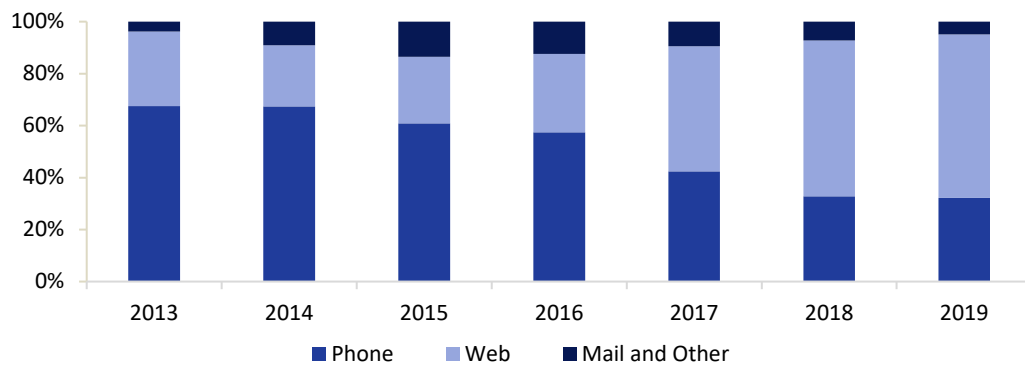
Figure 1: The number of reports made to the hotline have increased since 2010



Hotline reports are increasingly coming from the website

Figure 2 illustrates an increasing number of hotline reports are being made online rather than by phone or mail. Web submissions increased from 29% in 2013 to 63% of all submissions in 2019. 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: As of just a few years ago, most reports were made by phone; now, they are mostly made online

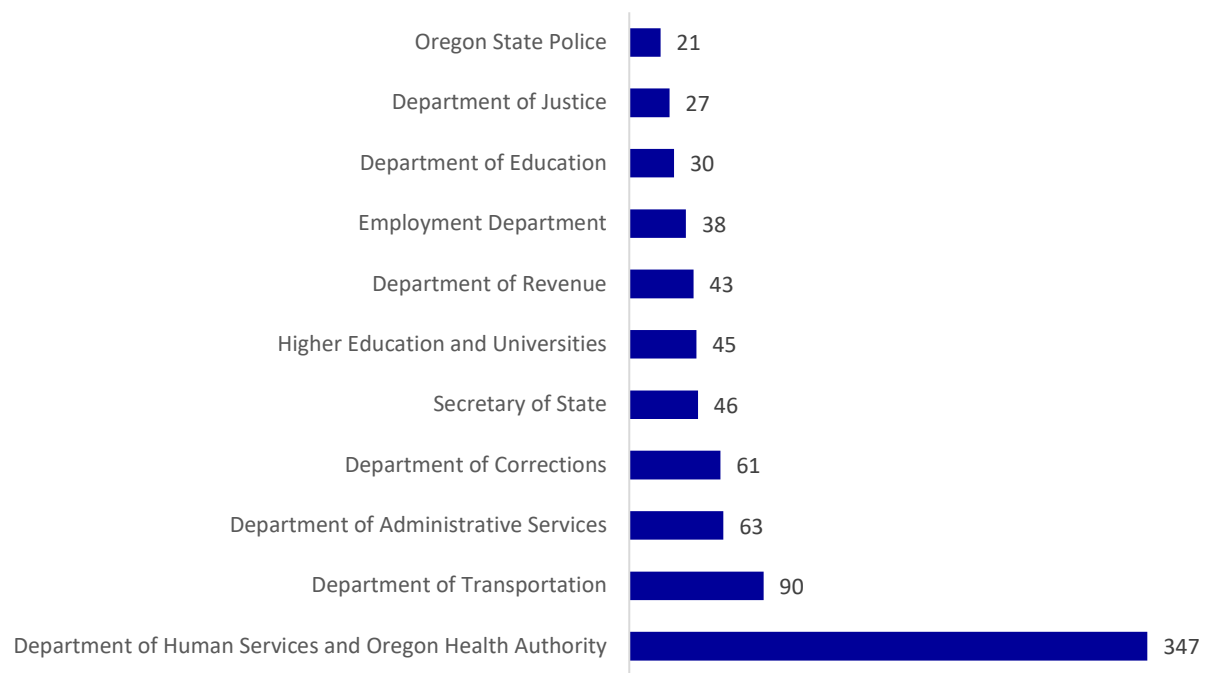


Health and human service agencies are the subject of most reports

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.

Because reports are rarely substantiated, this chart is not an indicator of which agencies are subjects of true waste, inefficiencies, or abuse. However, it does indicate those agencies that are the subject of the most concerns.

Figure 3: From 2013 to 2019, most reports pertained to the Department of Human Services and Oregon Health Authority⁴



Note: Excludes agencies with 20 or fewer reports.

⁴ From 2013 to 2019, reports pertaining to the Secretary of State's Office were mostly related to allegations of potential voter fraud and possible improper registration of private businesses within the state of Oregon. Of the five reports received in 2019, one alleged misuse of resources by an employee and one alleged conflict of interest of an employee. These reports were referred directly to the Oregon Government Ethics Commission.

2019 Hotline Results

Most hotline reports are related to business practices and work environment

We classify reports received through the hotline as shown in Figure 4. Similar to the prior year, a large portion of reports pertain to business practices and work environment.

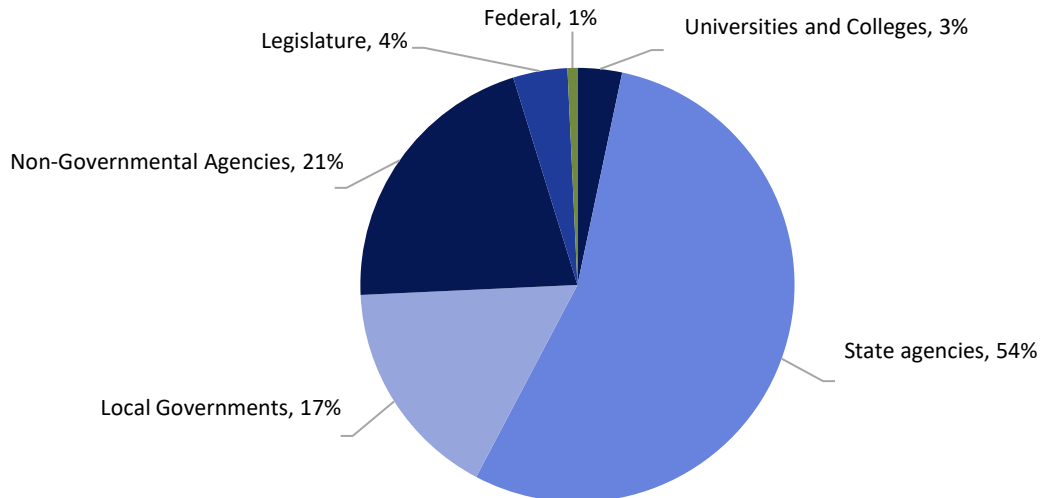
Figure 4: Half of all reports received in 2019 pertained to business practices and work environment

Classification	Description	Number of 2019 reports	Percent of 2019 reports
Business Practices	Reports concerning state business practices and public contracting, policies and procedures, and cost saving recommendations	71	26%
Work Environment	Reports alleging improper behavior, discrimination, wrongful termination, time theft, or unsafe environments in the workplace	65	24%
Fraud, Theft, or Ethics	Reports alleging fraud, falsification or destruction of information, embezzlement, theft, corrupt practices, conflict of interest, or kickbacks	55	20%
Unrelated/Insignificant	Reports determined unrelated or insignificant to state funds or resources	48	18%
Financial Management	Reports concerning accounting practices, audits, and tax issues	32	12%
Elections	Reports concerning election systems or voter fraud	1	0%
TOTAL		272	100%

Most hotline reports concern state agencies and local governments

Figure 5 details the types of entity that were the subject of hotline reports received in 2019. 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: The majority of hotline reports in 2019 pertained to state agencies and local governments



Report resolution depends on the information provided

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 should we need 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 alleged 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.

2019 hotline reports

- **155 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.
- **42 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.
- **37 reports** were referred directly to another public body that could more appropriately investigate the allegation.

- **22 reports** were closed after the reporter did not respond to our requests for additional information needed to proceed with an investigation.
- **14 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.
- **Two reports** remain open and may result in a management letter to the involved agency.

2018 hotline reports

Two reports from 2018 remained open at the beginning of 2019 and resulted in a management letter.



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:

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sos.oregon.gov/audits