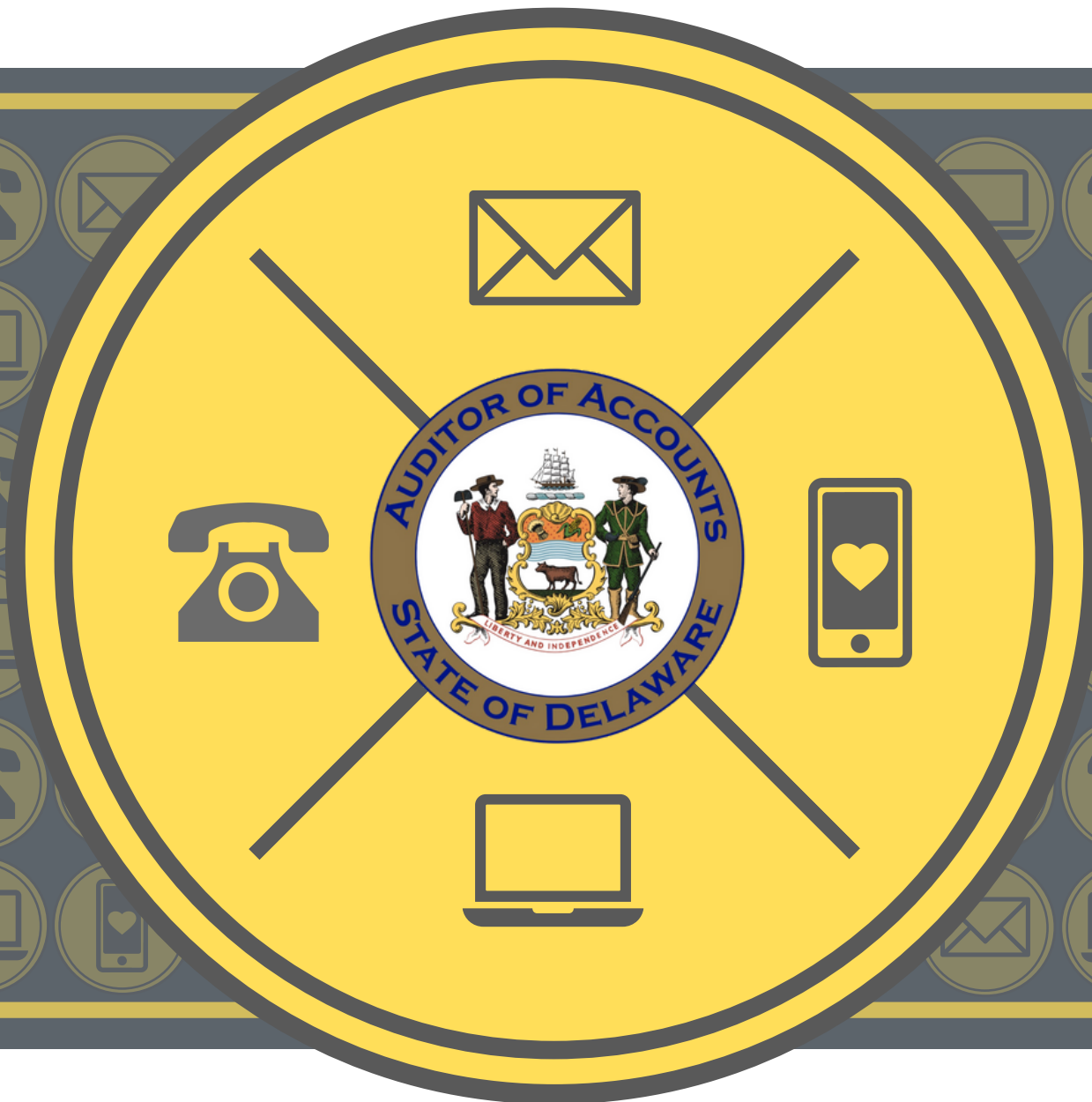


AUDITOR'S OFFICE FRAUD HOTLINE

SUMMARY REPORT OF FISCAL YEAR 2022



A Special Report by
Delaware State Auditor
Kathy McGuinness, RPh, CFE



**State of Delaware
Office of Auditor of Accounts
Kathleen K McGuiness, CFE, RPh
State Auditor**



Dear fellow Delawareans,

The Office of Auditors of Accounts (OAOA) has operated the Fraud, Waste, and Abuse Hotline for decades. The hotline permits the public and employees within state government to privately report alleged fraud, waste, and abuse of state funds and resources. Individuals may remain anonymous and OAOA protects the identity and privacy of any individual making a report.

Hotline tips are received primarily through online channels or a toll-free phone number (1-800-55-FRAUD). Reporting tips related to fraud, waste, and abuse may come from first-hand observers or witnesses that are either citizens or employees of the state. OAOA reviews each hotline report to determine whether the allegation or concern would be addressed more appropriately by making a referral to another state agency (i.e., Department of Health and Social Services, Department of Labor, etc), or if an independent review by OAOA is warranted. OAOA determines which reports require further investigation and which reports are followed up during ongoing audit work. The investigation and audit work is managed by OAOA Hotline Team.

We are pleased to submit this report of the Hotline for fiscal year ending June 30, 2022. The primary consideration in determining the contents of special reports is to produce information to help improve the effectiveness of government. This report summarizes activity reported through the Delaware Office of Auditor of Accounts in fiscal year 2022, including the number, nature, and resolution of hotline tips. My hope is that this report helps to emphasize the importance of a reporting hotline as a critical tool which has a significant impact on how fraud is detected.

Thank you for the opportunity to serve you.

Sincerely,

A handwritten signature in blue ink that reads "Kathy McGuiness".

Kathy McGuiness, RPh, CFE

401 Federal St Townsend Building 3rd Floor Dover, DE 19901

Main Office: 302-739-4241

Fiscal Year 2022 Hotline Results

OAOA Hotline By the Numbers

308

Reports in FY22

153

Reports Closed by
OAOA in FY22

65

Reports Remain Open & Under
Review Pending Additional Detail

90

Reports Referred to the
Appropriate State Agency

Hotline Volume Trending Up

The Fraud Hotline contains reports dating back to FY2011 and averaged just under 100 reports per fiscal year from FY2011 through FY2017. Figure 1 illustrates the number of hotline reports received since FY2018.

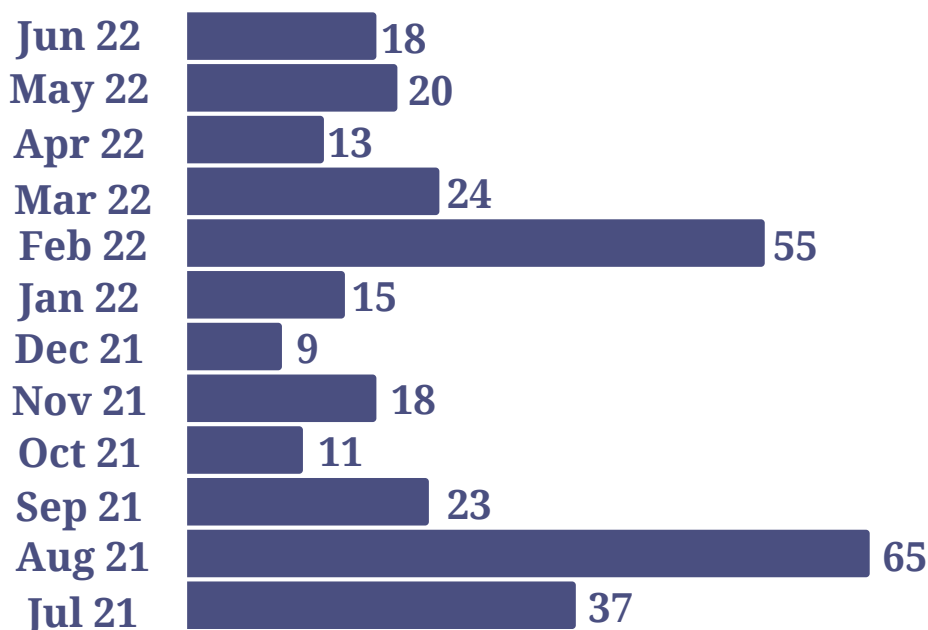
The volume of hotline tips trended up from FY2019 with a high in FY2021 and then trended down in FY2022. The fluctuating volume of hotline reporting occurred for several reasons in recent years. For example, the creation of the “Fraud Hotline App” by the State Auditor’s Office in September 2019 allowed easier access for hotline reporting.

The volume of hotline reports tends to increase after instances of fraud are reported by major media outlets. The months with the highest number of tips received in FY2022 were during July, August, and February.

Figure 1. Reports by Fiscal Year



Figure 2. Report Volume by Month

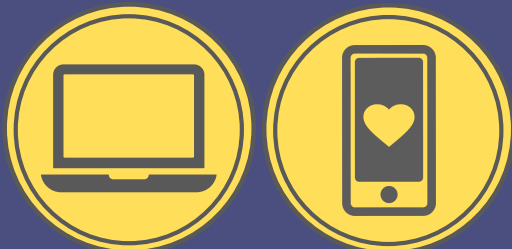


Reports to the Fraud Hotline Primarily Originate from Online Sources

Figure 3 identifies the method of reporting most often used for hotline reports. Over 70% of reports received in FY2022 were initiated via online methods such as the online fraud hotline application or email to the State Auditor. The telephone reporting method remains an essential tool for hotline reporting, as telephone reporting offers an opportunity to dialog and obtain all necessary information to support action during the initial report. To maximize the hotline’s effectiveness, it is necessary to maintain multiple methods of reporting and to track reports from all sources.

Figure 3. Method of Reports Received in FY2022

Online / Email / Mobile App
ReportFraud.Auditor.Delaware.Gov



221 Reports in FY2022

Toll-Free

1-800-55-FRAUD (37823)



79 Reports in FY2022

US Mail



4 Reports in FY2022

In-Person



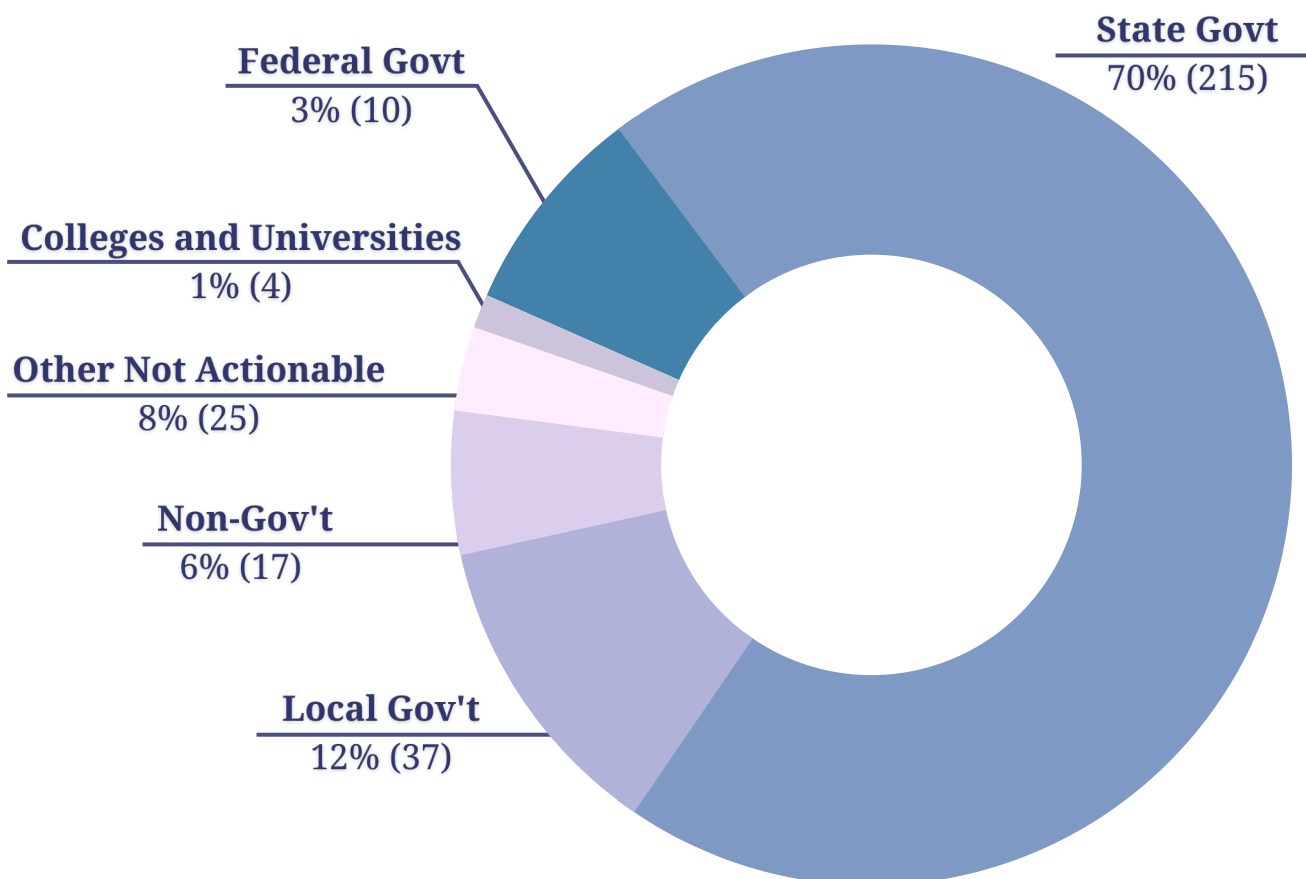
4 Reports in FY2022

70% of All FY2022 Hotline Reports Were State Related

Although the main objective of the hotline is to gather tips and information regarding fraud, waste, and abuse in state agencies, some hotline reports involve non-state entities, such as the federal government, local government / municipalities, or private sector organizations.

As shown in Figure 4, in FY2022, 70% of all hotline reports were state-related, 3% were federal government-related, 12% were local government-related (municipalities), and 6% were non-government related.

Figure 4. Subjects of Hotline Reports in FY2022

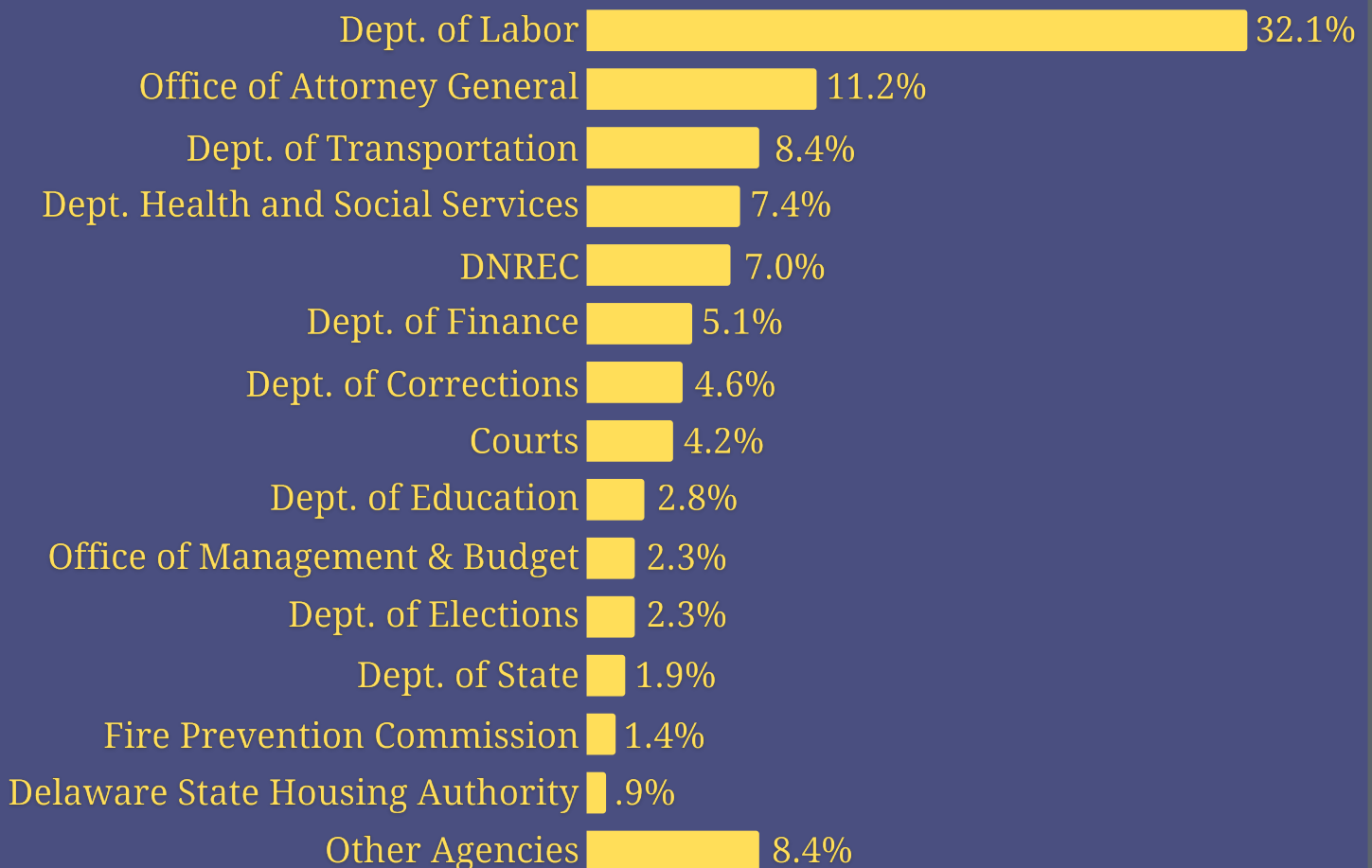


Highest Number of Hotline Reports Come from the State's Largest Agencies

Figure 5 lists the State of Delaware agencies that were the most frequent subject of hotline reports in FY2022. It is important to note that the chart is not an indicator of which agencies are involved in actual misuse of state funds. Not all reported tips are substantiated, and many reports are grievances which have separate resolution channels and are referred appropriately.

The Department of Labor, Office of Attorney General, Department of Transportation, and Health and Social Services are the subject of most reports. The high number of Attorney General referrals can be attributed to the number of criminal justice complaints received, and the high number of Department of Labor reports can be attributed to Unemployment Insurance complaints.

Figure 5. OAOA Fraud Hotline Reports State Agencies Subject to Most Hotline Reports



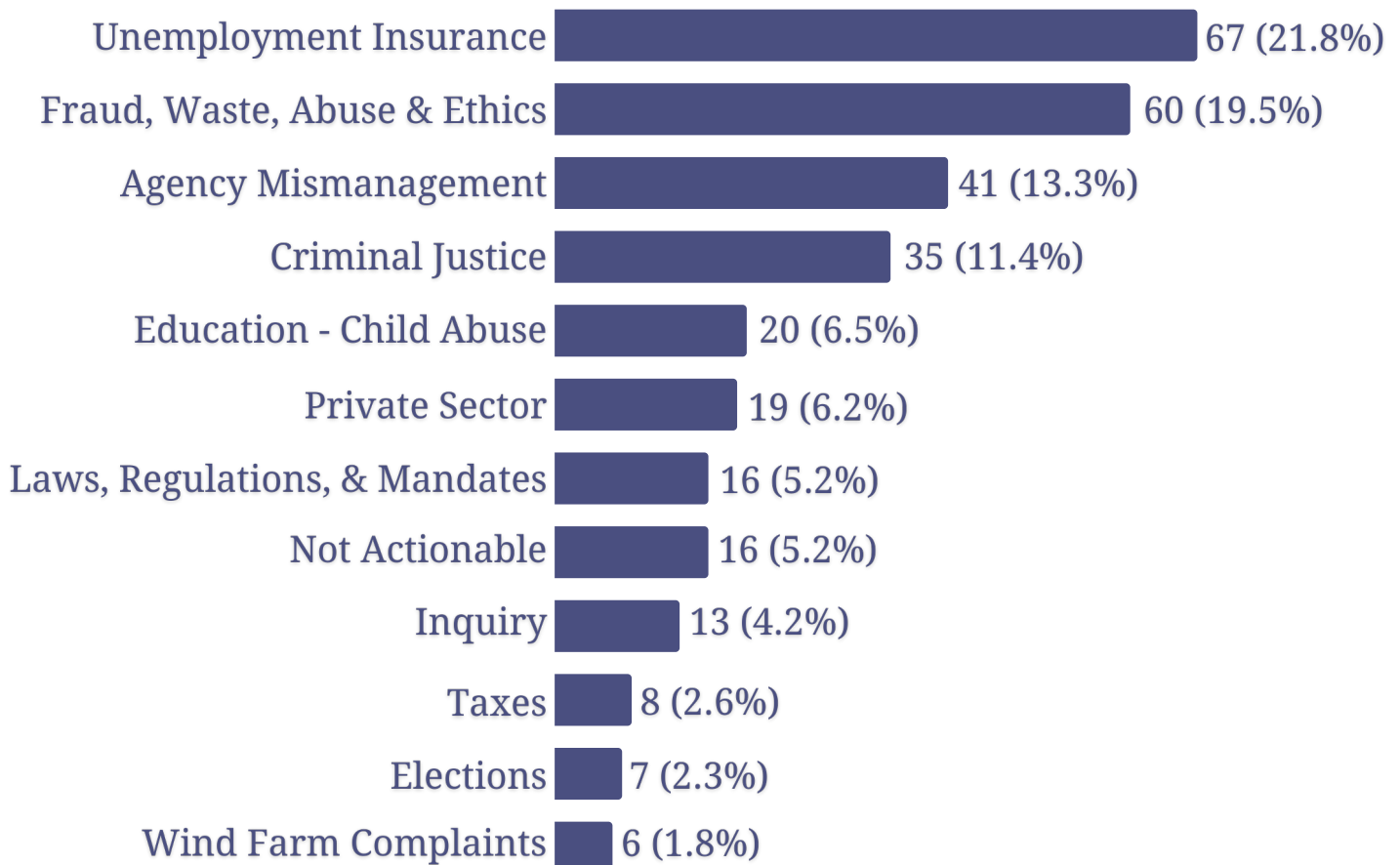
Fraud Remains the Top Concern

Hotline reports received are sorted into the categories shown in Figure 6. A concentration of reports with a particular concern can highlight areas of increased risk within an organization requiring additional training and awareness. Fraud continues to be a top concern based on our analysis of reporting trends.

67 (21.8%) of all FY2022 Hotline reports concerned Unemployment Insurance fraud and service quality issues continuing a trend from the prior year. Unemployment Insurance reports were broken out separately due to the high volume of fraud-related reports concerning the program. Of the 67 reports involving Unemployment Insurance, 51 of them involved fraudulent claims sent to businesses using a false identity.

The Fraud Hotline often reflects current issues in our state. We saw a high volume of criminal justice related reports in the light of police brutality protests in recent years, and 35 (11%) of these reports were received in FY2022.

Figure 6. Hotline Report Classifications



Substantiating Reports Depends Upon Quality Data

We prefer to keep hotline-related work within the State Auditor's Office to align with employee and public expectations, but we do receive reports that fall outside of the scope of the State Auditor's Office authority. These reports are referred to the applicable state agency with responsibility, and OAOA referred 90 reports in FY2022.

Of the 153 reports the Auditor investigated and closed in FY2022, none were substantiated as confirming fraud, waste, or abuse. In some cases, reported actions lacked sufficient detail to confirm a violation had occurred.

Hotline reports can be difficult to substantiate as they are dependent on quality reporting by the tipster, with detailed information such as dates, times, names, and events. We were unable to investigate some reports due to a lack of detail provided by the reporter, or the report was found to be without merit. If we do not receive sufficient information to investigate, we do attempt to connect with the reporter if possible to obtain more information.

There are 65 reports which remain open and in progress as OAOA either continues to gather information, research the complaint, or has investigation or audit in process.

What Data is Important to Include in a Report?

- Agency, organization, or entity involved
- Any supporting documentation if applicable
- Dates of alleged wrongdoing
- Any other information you feel is important to the allegation - the more detail, the better.
- Optional: Contact information for follow-up
 - Remember, we take your anonymity seriously, so you may provide as much or as little contact information as you feel comfortable with.

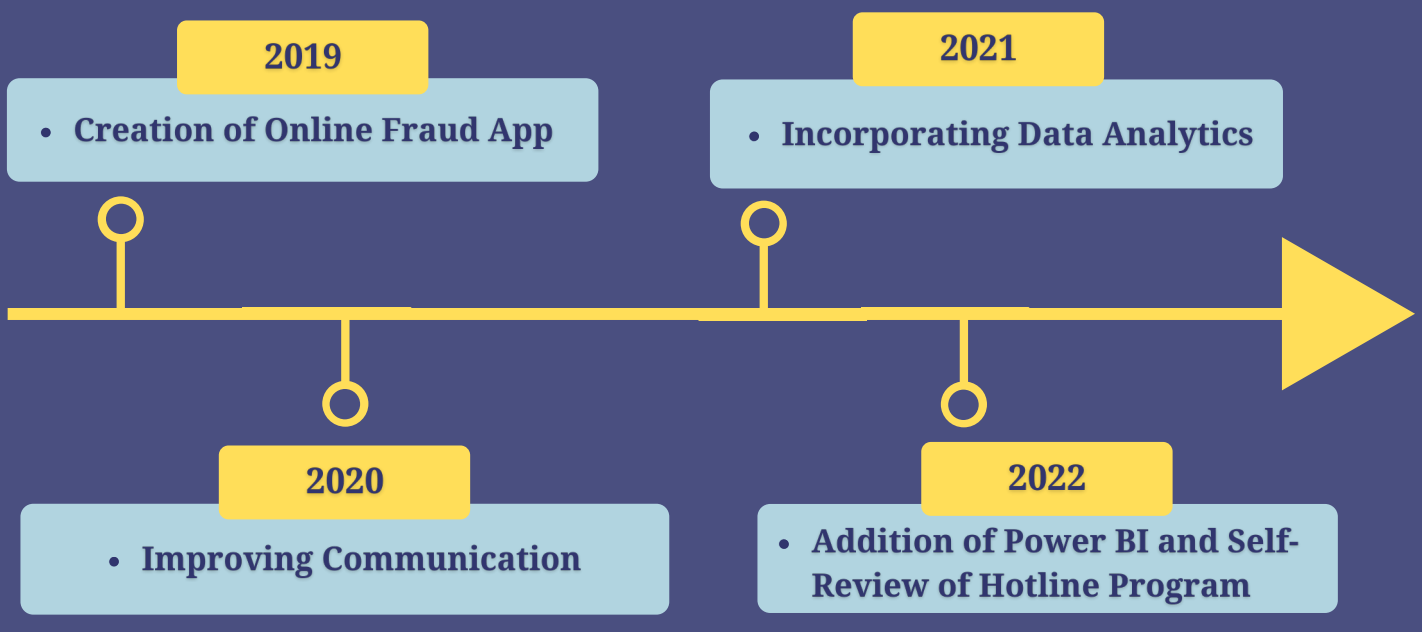


Hotline Process Improvements & Planned Enhancements

OAOA is dedicated to the continuous improvement process across state government including the hotline program.

In 2022, OAOA began using data analytics technology to identify areas for hotline improvement. OAOA analyzed trends in report data and ways to continue to improve the hotline program's data collection efforts which will allow for more substantive analysis.

Hotline Timeline and Improvements 2019 - 2021



Why is the Fraud Hotline Important?

- Increases deterrence of fraud, waste, and abuse
- Boosts operational efficiency and effectiveness
- Uses report data to identify trends and address risks
- Improves policy and procedures
- Informs the audit plan
- Strengthens internal controls
- Make actionable recommendations to management

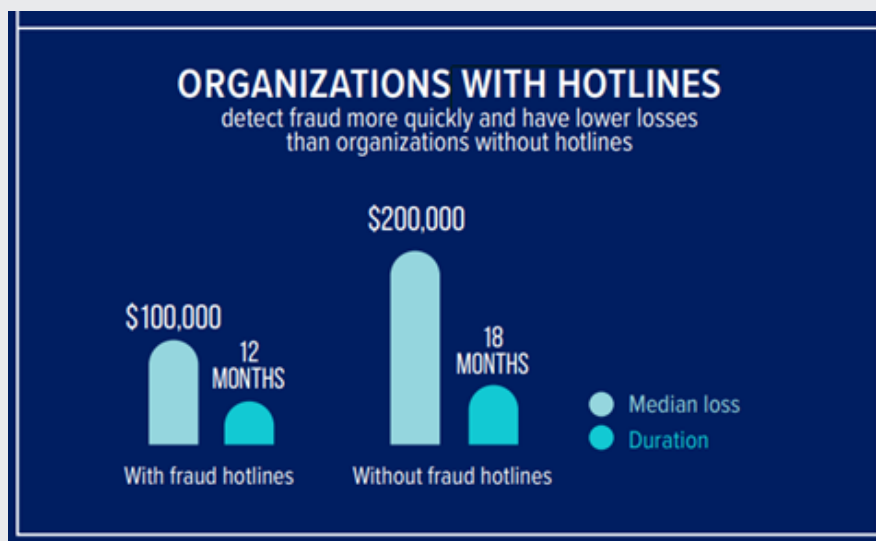
To put it simply, it helps us PREVENT, DETECT, and INVESTIGATE issues in the state.



Appendix

Background

Fraud detection is one of the ongoing challenges facing all organizations. A vital tool for detecting fraud is fraud hotlines. Tips have been one of the most common fraud detection methods for decades. The Association of Certified Fraud Examiners' (ACFE) 2022 annual global fraud study reports that 42% of fraud was detected through tips, most tips were reported via email, and 27% of all government fraud cases were attributed to state-level governments.



Source: ACFE 2022 Report to the Nations

The ACFE observed that corruption is the most common fraud scheme used in state government, often involving billing fraud, expense reimbursements, non-cash/payroll, skimming, and check/payment tampering schemes. Implementing a hotline improves the likelihood that fraud will be discovered earlier, minimizing losses. ACFE research concluded that organizations with a hotline observed a much higher likelihood that fraud would be detected by a tip than an organization without a hotline[1].

[1] ACFE Occupational Fraud 2022

"A tip is nearly **three times** more likely to detect fraud than an internal audit."

- Occupational Fraud 2022: A Report to the Nations



Background (Continued)

The OAOA fraud hotline was established to report fraud, waste, abuse, and other misconduct. The hotline reporting system includes receiving information (tips) on the misappropriation of public resources (state programs, funds, personnel, etc.) by state agencies, employees, or others working under contract with the State of Delaware. The person reporting may choose to remain anonymous when reporting their issue or tips. The hotline provides problem resolution that guarantees an unbiased, objective, and impartial review without fear of reprisal by offering an anonymous channel for reporting issues.

Examples of hotline tips may include:

- Violation of State Policy (unqualified employees, missed background checks, etc.)
- Misuse or Waste of Funds/Resources (unnecessary or excessive purchases/construction, etc.)
- Abuse of State technology (misuse of the Internet, unauthorized use of state computers, personal calls/use of fax machines, etc.)
- Leave Abuse (Arrives late or leaves early, takes long lunches or other excessive breaks)

To ensure that all state employees and the public are aware and have opportunities to report suspected fraud, waste, or abuse, OAOA developed an online fraud hotline application in September 2019. Additionally, OAOA employees have the hotline contact information in their email signatures. The State Auditor also takes an active approach to communicating information on the hotline including social media posts, radio and newspaper interviews, and during in person public events around the state (i.e., Delaware State Fair). Improving public communication from the Auditor's Office is critical for enhancing risk assessment and developing relevant and insightful audit plans.

