

Internal Audit Department

O R A N G E C O U N T Y
 6th Largest County in the USA

OC FRAUD HOTLINE ANNUAL ACTIVITY REPORT TO THE BOARD OF SUPERVISORS

FOR THE TWELVE-MONTH PERIOD
 JULY 1, 2012 THROUGH JUNE 30, 2013



<u>OC Fraud Hotline Activity Summary:</u>	
Total Hotline Reports This Period	178
Carry-over Cases from Prior Reporting Period	21
Actionable Cases Arising during This Reporting Period	57
Cases Under Investigation at End of This Reporting Period	31
Investigated Cases Closed During This Reporting Period	47
-- Allegations Substantiated	14
-- Allegations Not Substantiated	33
Cases Referred Out to Other Agencies	103
Non Actionable Items	18

AUDIT NO: 1303-A
 REPORT DATE: NOVEMBER 15, 2013

Director: **Dr. Peter Hughes, MBA, CPA, CIA, CFE, CFF**
 Senior Audit Manager: **Alan Marcum, MBA, CPA, CIA, CFE**
 Fraud Hotline Manager: **David Wiggins, JD, MBA, CFS**

RISK BASED AUDITING

GAO & IIA Peer Review Compliant – 2001, 2004, 2007, 2010



American Institute of Certified Public Accountants Award to Dr. Peter Hughes as 2010 Outstanding CPA of the Year for Local Government

GRC (Government, Risk & Compliance) Group 2010 Award to IAD as MVP in Risk Management



2009 Association of Certified Fraud Examiners' Hubbard Award to Dr. Peter Hughes for the Most Outstanding Article of the Year – Ethics Pays



2008 Association of Local Government Auditors' Bronze Website Award



2005 Institute of Internal Auditors' Award to IAD for Recognition of Commitment to Professional Excellence, Quality, and Outreach



ORANGE COUNTY BOARD OF SUPERVISORS'
Internal Audit Department

GAO & IIA Peer Review Compliant - 2001, 2004, 2007, 2010

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

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Certified Information Technology Professional (CITP)

Certified Internal Auditor (CIA)

Certified Fraud Examiner (CFE)

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To access and view audit reports or obtain additional information about the OC Internal Audit Department, visit our website: www.ocgov.com/audit



OC Fraud Hotline (714) 834-3608



Transmittal Letter



Audit No. 1303-A November 15, 2013

TO: Members, Board of Supervisors

FROM: Dr. Peter Hughes, CPA, Director
Internal Audit Department

A handwritten signature in blue ink that reads "Peter Hughes".

SUBJECT: OC Fraud Hotline Annual Activity Report to the
Board of Supervisors

We have completed our annual report concerning the operation of the Orange County Fraud Hotline. The Bylaws of the Orange County Audit Oversight Committee, Section VI.c., Scope of Committee's Authority and Objectives, delegates to the Internal Audit Department fraud policy activities, which includes the operation of the OC Fraud Hotline. This report is for the twelve-month period of July 1, 2012 through June 30, 2013.

The attached report includes a statistical summary of OC Fraud Hotline activities for Calendar Year 2010 through the first six months of 2013 and background information on the OC Fraud Hotline process.

We would like to acknowledge the professionalism and cooperation extended to us by the management of the various County agencies/departments during our Hotline investigation process. As always, I remain available to answer any questions you may have. Please contact me directly or David Wiggins, Fraud Hotline Manager, at 834-6106, if we can be of any assistance.

Attachments

cc: Members, Audit Oversight Committee
Michael B. Giancola, County Executive Officer
Foreperson, Grand Jury
Susan Novak, Clerk of the Board of Supervisors
Macias Gini & O'Connell LLP, County External Auditors

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to the Board of Supervisors***

*For the Twelve-Month Period
July 1, 2012 through June 30, 2013
Audit No. 1303-A*

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OC Internal Auditor's Report



Audit No. 1303-A

November 15, 2013

TO: Honorable Members, Board of Supervisors

FROM: Dr. Peter Hughes, CPA, Director
Internal Audit Department

SUBJECT: OC Fraud Hotline Annual Activity Report to the
Board of Supervisors

Below is the OC Fraud Hotline activity for the period July 1, 2012 through June 30, 2013. For detailed information about our OC Fraud Hotline process, please see Exhibit A.

Audit Highlight

From July 1, 2012 through June 30, 2013, the OC Fraud Hotline received 178 new complaints of improper activities, of which 32% were opened for investigation, and 58% were redirected to other agencies. A total of 18 were closed due to insufficient information to form the basis for any investigation.

1. Statistical Summary

The Internal Audit Department received **178** Hotline allegations, complaints or other contacts during the reporting period. IAD received **76** reports by email; **74** by telephone; **25** by letter, and **3** in person. These items are categorized in **Table 1**.

Table 1	
Summary of Allegations/Complaints	
New Actionable Cases	57
Referred to Appropriate Entity	103
Non Actionable Items	18
Total Allegations/Complaints	178

2. Types of Allegations/Complaints

Cases opened during the period concerned various complaints and allegations such as: 1) time abuse; 2) hostile work environment; 3) using County resources for non-business purposes; 4) improper journaling of wage expenses; 5) improper promotion practices; 6) non-compliance with department policies; 7) fraudulent travel expenses; 8) inaccurate financial reporting; 9) management abuse of power; 10) nepotism and favoritism in hiring and promotion; 11) non-compliance with County contracting policies; 12) employee "conflict of interest" issues; 13) non-compliance with EEO Policy; 14) contractor not providing required services; and 15) contractor accounting and billing records containing improprieties.



Non Actionable Items

These include insufficient information and not applicable issues. Examples include, inquiries regarding state licensing procedures, inquiries regarding details of employee payroll deductions, anonymous allegations that unidentified persons are violating federal immigration laws, requests for public speakers, requests for legal advice, wrong numbers, and incoherent remarks.

Referrals to Other Entities

Allegations involving issues beyond the jurisdiction of the County of Orange are referred to appropriate non-County agencies. On some cases, items are referred to other County departments for their discretion and action (e.g. child support concerns). OC Fraud Hotline allegations of welfare fraud or criminal acts are referred to the County District Attorney for action.

Table 2 identifies the total number of cases opened during this period and details complaint type.

Table 2	
Types of Allegations/Complaints	
New Actionable Items	
• Employee Misconduct	54
• Contractor Misconduct	3
Total Cases Opened	57
Items Not Handled by OC Fraud Hotline	
• Welfare Fraud	66
• Non-County	10
• Referred to other County Departments	27
Total Items Referred Out	103
Non Actionable Items	
Insufficient Information	3
Not Applicable	15
Total Non Actionable Items	18
Total OC Fraud Hotline Complaints	178



3. Status of Allegations/Complaints

Table 3 below summarizes the status of cases for the period July 1, 2012 through June 30, 2013.

Table 3						
Status of Allegations/Complaints						
Actionable Items	Investigations				Closed Cases	
	Carry Over Cases	New	Under Investigation	Closed	Substantiated	Not Substantiated
Employee	20	54	30	44	12	32
Contractor	1	3	1	3	2	1
Total	21	57	31	47	14	33

4. Allegations/Complaints Substantiated

In the 14 cases where the allegations or complaints were substantiated, the individual cases dealt with:

- Non-compliance with County contracting policy (2);
- Hostile work environment – discrimination;
- Improper journaling of wage expenses;
- Improper disposal of County property;
- Unprofessional conduct toward the public;
- Non-compliance with EEO Policy;
- Time abuse;
- Employee conflict of interest;
- Misuse of county time and equipment;
- Improper segregation of financial duties;
- Improper billing by vendors; and
- Non-compliance with department policies (2).

OC Internal Auditor's Report



5. OC Fraud Hotline Trend Analysis

Detailed in the following two charts are the trend analysis on summary of allegations or complaints, status of allegations or complaints and closed results.

	Calendar Year							
	SUMMARY OF ALLEGATIONS/COMPLAINTS							
	2010	%	2011	%	2012	%	2013 (6 months)	%
Actionable Items Per Year	42	27%	58	40%	59	33%	27	28%
Items Referred Out	102	66%	78	55%	109	60%	56	59%
Insufficient Information	10	7%	7	5%	12	7%	12	13%
Total Hotline Allegations	154	100%	143	100%	180	100%	95	100%

	Calendar Year							
	STATUS OF ALLEGATIONS/COMPLAINTS AND CLOSED RESULTS							
	2010	%	2011	%	2012	%	2013 (6 months)	%
Items Under Investigation or Pending at End of Reporting Period	8		7		7		16¹	
Substantiated	10	24%	11	21%	11	21%	4	36%
Not Substantiated	31	76%	41	79%	41	79%	7	64%
TOTAL CLOSED	41	100%	52	100%	52	100%	11	100%

The analysis from the charts above reflects increased activity from calendar year 2010 to calendar year 2012:

- the number of **actionable items increased 40%** (from 42 to 59).
- number of **OC Fraud Hotline allegations increased 17%** (from 154 to 180).
- the number of **allegations found to have merit increased 10%** (from 10 to 11).

¹ As of the date of this report, 13 of these 16 cases have been resolved and closed



EXHIBIT A

Background

The Orange County Internal Audit Department (IAD) administers the Orange County Fraud Hotline as part of its ongoing fraud detection and prevention effort. The Bylaws of the Orange County Audit Oversight Committee, Section VI.c., Scope of Committee's Authority and Objectives, delegates to the Internal Audit Department fraud policy activities, which includes the operation of the OC Fraud Hotline. The Hotline was first established September 1, 1994, and after a short period of inactivity during the bankruptcy, was reinstated May 3, 1996, and enhanced and improved in December 2004. The establishment of a Fraud Hotline is a best business practice for both private and governmental entities. The County encourages employees to resolve concerns through their normal administrative channels whenever possible. However, the OC Fraud Hotline provides an alternative reporting and investigating avenue to ensure that concerns about possible wrongdoing in our County government are properly addressed.

Types of Complaints

The OC Fraud Hotline is intended for County employees, vendors, and all members of the public to report suspected fraud, waste or abuse of County resources by vendors, contractors, or County employees. Violations of County policy are also reported. Fraud is an intentional act that results in the misstatement of financial records or theft of the County's assets. Waste and/or abuse of County resources would include, for example the use of a County computer to run an outside business.

Operates 24/7

The OC Fraud Hotline is monitored live for calls twenty-four hours a day, seven days a week. Callers have the option to report information anonymously or to identify themselves. The OC Fraud Hotline telephone system also provides the callers with a list of Hotline numbers for reporting frauds that are not handled by the County Fraud Hotline, such as Welfare Fraud. In processing OC Fraud Hotline calls that are not handled and monitored by IAD such as Welfare Fraud and calls for non-County agencies, the OC Fraud Hotline refers callers to the appropriate Hotline, e.g., Social Services Agency Welfare Fraud Hotline, for their investigation. In these cases, IAD logs the calls in the OC Fraud Hotline Control Log, but IAD does not perform any review or monitoring.

OC Fraud Hotline reports can also be made through the IAD web page on the Internet. As with telephonic reports, IAD's online "Fraud Hotline Form" allows for complete anonymity at the option of the reporting person.

Other OC Fraud Hotline Process Enhancements

In addition to IAD enhancing its website to assist anyone wishing to report fraud, other improvements include information on Whistleblower Protection and other Fraud Hotline phone numbers. In addition to IAD maintaining the Orange County Fraud Hotline, other agencies/departments also maintain hotlines. For example, Social Services Agency maintains the Welfare and Child Abuse Hotlines, CEO/Risk Management maintains the Workers' Compensation and Insurance Fraud Hotlines, and the District Attorney maintains the Consumer Fraud and Economic Fraud Hotlines.



Processing OC Fraud Hotline Allegations

1. For telephonic reports, the IAD staff and contracted service professionals prepare a Hotline Information Form which aids in the capturing of needed information.
2. For telephonic, Internet, and all other reports, the IAD staff assign a unique Hotline control number for each report.
3. All reports are logged into the IAD Hotline Control Log by the Hotline Manager.
4. The Hotline Manager reviews the specifics of the allegation and prepares a letter detailing the complaint.
5. The Internal Audit Department Director reviews the information and a formal Letter of Notice with all relevant information routed directly by the Director to the appropriate agency/department head, requesting acknowledgment of receipt within five working days. Depending upon the facts of each allegation, IAD may request that the agency/department conduct a timely investigation of the Hotline allegations. In such cases, the Director and/or the Hotline Manager will discuss with senior management the allegations of the report and the appropriate investigative approach, as well as the ongoing status of the investigation. If warranted by the circumstances of the case, an investigation may be conducted directly by IAD, either solely or in cooperation with agency/departmental staff.
6. The agency/department head to which a case is referred is required to provide a written report of the investigative steps, the results of the investigation, and any corrective action taken.
7. The Hotline Manager, along with the Director, upon receipt of the written report from the agency/department head, reviews the report to determine if appropriate action was taken.
8. If the Director is satisfied with the investigation and results, the Hotline case is closed and a closeout letter is sent to the agency/department head. If the Director is not satisfied, further action will be proposed, including the possible initiation of a new investigation by either the agency or the Internal Audit Department, or continuance of the original one.

Communicating the Existence of the OC Fraud Hotline

The existence of the IAD Fraud Hotline is communicated in several ways:

- All County employees are alerted bi-weekly in the OC Employee Portal (Pay Stub Application).
- Postings appear monthly in the CEO County Connection newsletter.
- Fraud Hotline posters are displayed in each County department/agency.
- A link is posted on the "home page" of the IAD web site.
- IAD staff and other County employees disseminate information by word of mouth.
- All IAD staff business cards carry the Fraud Hotline phone number.
- All IAD audit reports carry the Fraud Hotline phone number.