OC FRAUD HOTLINE ACTIVITY

FOR THE PERIOD
JANUARY 1, 2010 THRU JUNE 30, 2010

During January 1, 2010 through June 30, 2010, the OC Fraud Hotline received 77 new complaints of improper activities, of which 26 were opened for investigation, and 23 cases were closed. The allegations in 6 of the 23 cases that were closed during the period were substantiated, and appropriate corrective action was taken.

AUDIT NO: 1003-A
REPORT DATE: JULY 29, 2010

Director: Dr. Peter Hughes, MBA, CPA
Deputy Director: Eli Littner, CPA, CIA
Senior Audit Manager: Alan Marcum, MBA, CPA, CIA

RISK BASED AUDITING
GAO & IIA Peer Review Compliant – 2001, 2004, 2007

2009 Association of Certified Fraud Examiners' Hubbard Award For the Most Outstanding Article of the Year

2008 Association of Local Government Auditors' Bronze Website Award

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

Internal Audit Department

ORANGE COUNTY
5th Largest County in the USA

Independence Objectivity Integrity

ORANGE COUNTY BOARD OF SUPERVISORS'

Internal Audit Department

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

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

Dr. Peter Hughes	**Ph.D., MBA, CPA, CCEP, CITP, CIA, CFE**
County Internal Auditor	Certified Compliance & Ethics Professional (CCEP)
	Certified Information Technology Professional (CITP)
	Certified Internal Auditor (CIA)
	Certified Fraud Examiner (CFE)
E-mail:	peter.hughes@iad.ocgov.com

Eli Littner	**CPA, CIA, CFE, CFS, CISA**
Deputy Director	Certified Fraud Specialist (CFS)
	Certified Information Systems Auditor (CISA)
Michael J. Goodwin	**CPA, CIA**
Senior Audit Manager	
Alan Marcum	**MBA, CPA, CIA, CFE**
Senior Audit Manager	
Autumn McKinney	**CPA, CIA, CISA, CGFM**
Senior Audit Manager	Certified Government Financial Manager (CGFM)

Hall of Finance & Records

12 Civic Center Plaza, Room 232
Santa Ana, CA 92701

Phone: (714) 834-5475 Fax: (714) 834-2880

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

Letter from Peter Hughes, CPA

Transmittal Letter

Audit No. 1003- A **July 29, 2010**

TO: Members, Board of Supervisors
Chair Janet Nguyen, Supervisor 1st District
Vice Chair Bill Campbell, Supervisor 3rd District
Supervisor John Moorlach, 2nd District
Supervisor Shawn Nelson, 4th District
Supervisor Patricia Bates, 5th District

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

SUBJECT: Orange County Fraud Hotline Activity

We have completed our 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 Fraud Hotline. This report is for the period of January 1, 2010 through June 30, 2010. The attached report includes a statistical summary of Hotline activities for the first six months of 2010 and background information on the 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 Eli Littner, Deputy Director at 834-5899 or Alan Marcum, Senior Audit Manager at 834-4119 if we can be of any assistance.

Attachments

cc: Members, Audit Oversight Committee
Thomas G. Mauk, County Executive Officer
Foreperson, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors

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Orange County Fraud Hotline Activity

For the Period
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OC Internal Auditor's Report

Audit No. 1003-A **July 29, 2010**

TO: Members, Board of Supervisors
Chair Janet Nguyen, Supervisor 1st District
Vice Chair Bill Campbell, Supervisor 3rd District
Supervisor John Moorlach, 2nd District
Supervisor Shawn Nelson, 4th District
Supervisor Patricia Bates, 5th District

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

SUBJECT: Orange County Fraud Hotline Activity

Below is the OC Fraud Hotline activity for the period January 1, 2010 through June 30, 2010. For detail about our hotline process, please see Exhibit A.

Audit Highlight

During January 1, 2010 through June 30, 2010, the OC Fraud Hotline received **77** new complaints of improper activities, of which **34%** were opened for investigation, **58%** were redirect to other agencies and **six** closed due to insufficient information/other.

1. Statistical Summary

The Internal Audit Department received 77 complaints during the reporting period. IAD received 30 allegations by phone, letter or in person; 45 allegations by email; and 2 allegations by the outside service (non-business hours). These calls are categorized in Table 1.

Table 1
Summary of Complaints

Actionable Calls	**26**
Referred Calls	**45**
Insufficient Information	**5**
Other	**1**
Total Hotline Calls	**77**

2. Types of Complaints

Cases opened during the period concerned complaints of possible employee misconduct, e.g., time abuse; using County equipment for personal use; non-compliance with BOS policy for working retirees; unprofessional behavior by managers; the use of incorrect billing codes resulting in loss of revenue; inappropriate use of Prop. 63 funds; and employee releasing confidential information.

When complaints involve issues beyond the jurisdiction of the County of Orange, they are referred to appropriate non-County agencies. Hotline callers alleging welfare fraud were 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 Complaints	
Actionable Calls	
• Employee Misconduct	26
Total Cases Opened	**26**
Referred Calls	
• Welfare Fraud	20
• Non-County	13
• Referred to Sheriff-Coroner	5
• Referred to other County Departments	7
Total Complaints Referred Out	**45**
Insufficient Information	5
Other	1
Total Hotline Calls	**77**

3. Status of Complaints

Table 3 below summaries the status of complaints for the period January 1, 2010 through June 30, 2010.

Table 3

Status of Complaints

	Investigation				Closed Findings	
ACTIONABLE CALLS	Prior Period	New	Still Open	Closed	Substantiated	Not Substantiated
Employee	2	26	5	23	6	17
Total	**2**	**26**	**5**	**23**	**6**	**17**

The Case Highlights

In the 6 cases where the allegations were substantiated, the individual cases dealt with: the use of County equipment for non-business purposes; time abuse; the use of incorrect billing codes resulting in loss of revenue; unprofessional behavior by managers. In all cases, appropriate corrective action was taken.

EXHIBIT A

Background

The Orange County Internal Audit Department (IAD) originally established and now runs 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 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 Hotline is a best business practice for both private and governmental entities. The County encourages employees to resolve concerns through their normal administrative channel whenever possible. However, the OCIAD Fraud Hotline provides an alternative reporting and investigating avenue to ensure that concerns about possible wrong doings in our County government are properly addressed.

Types of Complaints

The Hotline is intended for County employees, vendors, and the public to report suspected fraud or misuse 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. The misuse of County resources would include for example the use of a County computer to run an outside business. In instances when non-County callers use the Hotline, their complaints are also processed.

Operates 24/7

The Hotline is monitored live for calls twenty-four hours a day, seven days a week. IAD staff monitors the telephone during business hours and contracted Hotline service professionals monitor the telephone during non-business hours. Callers can leave anonymous information or identify themselves. The 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 Hotline calls that are not handled and monitored by IAD such as Welfare Fraud and calls for non-County agencies, IAD refers the caller to the appropriate Hotline, e.g., Social Services Agency Welfare Fraud Hotline for their investigation. In these cases, IAD logs the calls in the Hotline Control Log, but IAD does not perform any review or monitoring. Hotline reporting can also be made through our web page on the internet. We have created a "Virtual Hotline Form" where an individual can remain anonymous.

Other 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 Hotline calls

1. The IAD staff and the contracted service professionals prepare the Hotline Information Form which aides in the capturing of needed information.

2. The IAD staff and the outside service professional assign a unique Hotline control number.

3. All calls received are recorded into the Hotline Control Log.

4. The IAD staff and the contracted service professionals provide the completed Hotline Information Form (by hard copy and email respectively), to the Hotline Senior Audit Manager.

5. The Senior Audit Manager reviews the specifics of the allegation and prepares a letter detailing the complaint.

6. The County Internal Auditor and Deputy Director review the information and a formal Hotline Action Request with all relevant information is routed directly by the County Internal Auditor to the agency/department head to acknowledge receipt of the Hotline Action Request within five working days. Depending upon the facts of each allegation, IAD may conduct its own on-site visit and review. The County Internal Auditor, Deputy Director or Senior Audit Manager will discuss with senior management the allegation and the approach, and the status of the agency/departments investigation and determine a course of action for an IAD review if considered warranted by IAD.

7. The agency/department head, to which cases are referred, are required to provide a written report of the investigative steps, the results of the investigation, and corrective action taken.

8. The Senior Audit Manager along with the County Internal Auditor or Deputy Director, upon receipt of the written report from the agency/department head, reviews the report to determine if appropriate action was taken.

9. If the County Internal Auditor 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 County Internal Auditor is not satisfied further action will be proposed.

Communicating the Existence of the Hotline

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

- All County employees are alerted bi-weekly in the OC Employee Portal (Pay Stub Application).
- Postings in the monthly CEO County Connection newsletter.
- Fraud Hotline posters are displayed in each County department.
- A link on the County and IAD web pages.
- Word of mouth by IAD staff and other County employees.