# **OC FRAUD HOTLINE ACTIVITY** REPORT TO THE BOARD OF SUPERVISORS

For the Period JULY 1, 2011 THRU DECEMBER 31, 2011



Fraud Hotline Activity Summary:	
Carry-over Cases	4
Actionable Complaints	37
Items Under Investigation or Pending	7
Completed or Closed Investigations	34
Substantiated	8
Unsubstantiated	26
Items Referred Out	42
Insufficient Information	6

## AUDIT NO: 1103-B REPORT DATE: MARCH 23, 2012

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

#### **RISK BASED AUDITING**





AICPA 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

.

**U**êu

>

Z

ш

C

Ζ

∡

Ľ

0

Ū

n

CInternal Audit Department

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

**Providing Facts and Perspectives Countywide** 

#### **RISK BASED AUDITING**

Dr. Peter Hughes	Ph.D., MBA, CPA, CCEP, CITP, CIA, CFE, CFF	
Director	Certified Compliance & Ethics Professional (CCEP)	
	Certified Information Technology Professional (CITP)	
	Certified Internal Auditor (CIA)	
	Certified Fraud Examiner (CFE)	
	Certified in Financial Forensics (CFF)	
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 McKinneyCPA, CIA, CISA, CGFMSenior Audit ManagerCertified 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: <u>www.ocgov.com/audit</u>



OC Fraud Hotline (714) 834-3608

## Letter from Peter Hughes, CPA



## **Transmittal Letter**



Audit No. 1103-BMarch 23, 2012TO:Members, Board of SupervisorsFROM:Dr. Peter Hughes, CPA, Director<br/>Internal Audit DepartmentSUBJECT: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 July 1, 2011 through December 31, 2011. The attached report includes a statistical summary of Hotline activities for 2011 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 Susan Novak, Clerk of the Board of Supervisors



### **Orange County Fraud Hotline Activity**

For the Period July 1, 2011 thru December 31, 2011 Audit No. 1103-B

Transmittal Letter	i
OC Internal Auditor's Report	1
EXHIBIT A	3



Audit No. 11	03-B March 23, 2012
TO:	Members, Board of Supervisors
FROM:	Dr. Peter Hughes, CPA, Director Setury lughes
SUBJECT:	Orange County Fraud Hotline Activity
•	

Below is the OC Fraud Hotline activity for the period July 1, 2011 through December 31, 2011. For detail about our hotline process, please see Exhibit A.

#### 1. Statistical Summary

The Internal Audit Department received 85 complaints during the reporting period. IAD received 28 allegations by phone, letter or in person; 48 allegations by email; and 9 allegations by the outside service (non-business hours). These calls are categorized in Table 1.

Table 1	
Summary of Complaints	
Actionable Calls	37
Referred Calls	42
Insufficient Information	6
Total Hotline Calls	85

#### 2. Types of Complaints

Cases opened during the period concerned complaints of possible employee misconduct, e.g., 1) time abuse; 2) hostile work environment; 3) using County resources for non-business purposes; 4) missing tools and equipment; 5) violation of County procurement policies; 6) issues regarding the ATS reengineering project; 7) retaliation; 8) employees working out-of-class; 9) managers not qualified; 10) misconduct by managers and executives; 11) noncompliance with Government policy; 12) not providing adequate customer service; 13) non-compliance with EEO Policy; and 14) not paying vendors timely.

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.

#### Audit Highlight

During July 1, 2011 through December 31, 2011, the OC Fraud Hotline received 85 new complaints of improper activities, of which 44% were opened for investigation, 49% were redirected to other agencies and six closed due to insufficient information.



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

Table 2	
Types of Complaints	
	Т
Actionable Calls	
Employee Misconduct	37
Contractor Misconduct	0
Total Cases Opened	37
Referred Calls	
Welfare Fraud	20
Non-County	11
Referred to other County Departments	11
Total Complaints Referred Out	42
Insufficient Information	6
Total Hotline Calls	85

#### **3.** Status of Complaints

Table 3 below summarizes the status of complaints for the period July 1, 2011 through December 31, 2011.

Table 3						
Status of Complaints						
Investigation Closed Findings						Findings
ACTIONABLE	Prior		Still			Not
CALLS	Period	New	Open	Closed	Substantiated	Substantiated
Employee	4	37	7	34	8	26
Contractor						
Total	4	37	7	34	8	26

#### 4. Complaints Substantiated

In the 8 cases where the allegations were substantiated, the individual cases dealt with:

- 1) hostile work environment;
- 2) misconduct by managers and executives;
- 3) violation of County procurement policies;
- 4) issues regarding ATS reengineering project;
- 5) non-compliance with EEO Policy;
- 6) time abuse; and
- 7) using County resources for non-business purposes.



## 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 monitor 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 Internal Audit Department Director and Deputy Director review the information and a formal Hotline Action Request with all relevant information is routed directly by the Director 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 Director, 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 Director or Deputy Director, upon receipt of the written report from the agency/department head, reviews the report to determine if appropriate action was taken.
- 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.

#### **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.



## **Hotline Trend Analysis**

Detailed is the trend analysis on summary of complaints, status of complaints and closed results.

	2009	%	2010	%	2011	%
Summary of Complaints						
Actionable Items	25	32%	42	27%	58	40%
Items Referred Out	47	59%	102	66%	78	55%
Insufficient Information	7	9%	10	7%	7	5%
Total Hotline Allegations	79	100%	154	100%	143	100%
Carry-Over Cases	11		7		4	

Status of Complaints and Closed Results						
Items Under Investigation or Pending	6		8		7	
Substantiated	6	20%	10	24%	11	21%
Not Substantiated	24	80%	31	76%	41	79%
Total Closed	30	100%	41	100%	52	100%