

# Internal Audit Department

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

## OC FRAUD HOTLINE SEMI-ANNUAL ACTIVITY REPORT TO THE BOARD OF SUPERVISORS

FOR THE SIX-MONTH PERIOD  
 JANUARY 1, 2012 THRU JUNE 30, 2012



**OC Fraud Hot-Line Activity Summary:**

Carry-over Cases	13
New Actionable Items	29
Items Under Investigation	12
Closed Cases	30
<b>Substantiated</b>	<b>8</b>
Not Substantiated	22
Items Referred Out	60
Insufficient Information/Duplicates	8

AUDIT NO: 1203-A  
 REPORT DATE: OCTOBER 5, 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**  
 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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To access and view audit reports or obtain additional information about the OC Internal Audit Department, visit our website: [www.ocgov.com/audit](http://www.ocgov.com/audit)



**OC Fraud Hotline (714) 834-3608**



## Transmittal Letter



**Audit No. 1203-A October 5, 2012**

**TO:** Members, Board of Supervisors

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

**SUBJECT:** OC Fraud Hotline Semi-Annual Activity Report

We have completed our semi-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 six-month period of January 1, 2012 through June 30, 2012.

The attached report includes a statistical summary of OC Fraud Hotline activities for Calendar Year 2009 through the first six months of 2012 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 Alan Marcum, Senior Audit Manager, at 834-4119 if we can be of any assistance.

### Attachments

cc: Members, Audit Oversight Committee  
Bob Franz, Interim County Executive Officer  
Foreperson, Grand Jury  
Susan Novak, Clerk of the Board of Supervisors

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*For the Six-Month Period  
January 1, 2012 through June 30, 2012  
Audit No. 1203-A*

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# OC Internal Auditor's Report



**Audit No. 1203-A**

**October 5, 2012**

TO: Honorable Members, Board of Supervisors

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

SUBJECT: OC Fraud Hotline Semi-Annual Activity Report

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

## Audit Highlight

During January 1, 2012 through June 30, 2012, the OC Fraud Hotline received 97 new complaints of improper activities, of which 30% were opened for investigation, 62% were redirected to other agencies, two duplicates and six closed due to insufficient information.

## 1. Statistical Summary

The Internal Audit Department received **97** allegations or complaints during the reporting period. IAD received **40** allegations by phone, letter or in person; **51** allegations by email; and **6** allegations by the outside service (non-business hours). These items are categorized in **Table 1**.

Table 1	
Summary of Allegations/Complaints	
<b>New Actionable Items</b>	<b>29</b>
<b>Items Not Handled by the OC Fraud Hotline</b>	<b>60</b>
<b>Insufficient Information</b>	<b>6</b>
<b>Duplicates</b>	<b>2</b>
<b>Total Allegations/Complaints</b>	<b>97</b>

## 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) fraudulent travel expenses; 5) inappropriate use of Special Revenue Funds; 6) non-compliance with department policies; 7) inadequate segregation of duties; 8) inaccurate financial reporting; 9) management abuse of power; 10) employee is not a U.S. citizen; 11) issues with performance evaluations; 12) employee working in one classification, but being paid in a higher classification; 13) non-compliance with EEO Policy; 14) seniors defrauded out of their property; 15) employee lied to remove a child from their home; 16) contractor not providing required services; and 17) contractor accounting and billing records contain improprieties.



For allegations or complaints involving issues beyond the jurisdiction of the County of Orange, they 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). With the exception of welfare fraud, OC Fraud Hotline items 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.

<b>Table 2</b>	
<b>Types of Allegations/Complaints</b>	
<b>New Actionable Items</b>	
• Employee Misconduct	<b>27</b>
• Contractor Misconduct	<b>2</b>
<b>Total Cases Opened</b>	<b>29</b>
<b>Items Not Handled by OC Fraud Hotline</b>	
• Welfare Fraud	<b>31</b>
• Non-County	<b>15</b>
• Referred to other County Departments	<b>14</b>
<b>Total Items Referred Out</b>	<b>60</b>
<b>Insufficient Information</b>	<b>6</b>
<b>Duplicates</b>	<b>2</b>
<b>Total OC Fraud Hotline Complaints</b>	<b>97</b>



### 3. Status of Allegations/Complaints

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

Table 3						
Status of Allegations/Complaints						
Actionable Items	Investigations				Closed Cases	
	Carry Over Cases	New	Under Investigation	Closed	Substantiated	Not Substantiated
Employee	13	27	11	29	8	21
Contractor		2	1	1		1
<b>Total</b>	<b>13</b>	<b>29</b>	<b>12</b>	<b>30</b>	<b>8</b>	<b>22</b>

### 4. Allegations/Complaints Substantiated

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

1. hostile work environment – sexual harassment;
2. hostile work environment – discrimination;
3. mishandling of an investigation;
4. fraudulent travel expenses;
5. using County resources for non-business purposes;
6. non-compliance with EEO Policy - recruitment;
7. time abuse; and
8. non-compliance with department policies.

# 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							
	2009	%	2010	%	2011	%	2012 (6 months)	%
Actionable Items Per Year	25	32%	42	27%	58	40%	29	30%
Items Referred Out	47	59%	102	66%	78	55%	60	62%
Insufficient Information/ Duplicates	7	9%	10	7%	7	5%	8	8%
Total Hotline Allegations	79	100%	154	100%	143	100%	97	100%
<b>CARRY-OVER CASES</b>	<b>11</b>		<b>7</b>		<b>4</b>		<b>13</b>	

	Calendar Year							
	STATUS OF ALLEGATIONS/COMPLAINTS AND CLOSED RESULTS							
	2009	%	2010	%	2011	%	2012 (6 months)	%
Items Under Investigation or Pending	6		8		7		12	
Substantiated	6	20%	10	24%	11	21%	8	27%
Not Substantiated	24	80%	31	76%	41	79%	22	73%
<b>TOTAL CLOSED</b>	<b>30</b>	<b>100%</b>	<b>41</b>	<b>100%</b>	<b>52</b>	<b>100%</b>	<b>30</b>	<b>100%</b>

The analysis from the charts above reflects increased activity from calendar year 2009 to calendar year 2011:

- the number of **actionable items increased 132%** (from 25 to 58).
- number of **OC Fraud Hotline allegations increased 81%** (from 79 to 143).
- the number of **allegations found to have merit increased 83%** (from 6 to 11).



## 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 OC Fraud 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 OC 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 OC Fraud 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 OC Fraud 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 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, 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 OC Fraud Hotline Control Log, but IAD does not perform any review or monitoring. OC Fraud Hotline reporting can also be made through our web page on the internet. We have created a "Virtual OC Fraud Hotline Form" where an individual can remain anonymous.

### 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. 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.
9. 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 which may include the initiation of a new investigation or continuance of the original one.

## Communicating the Existence of the OC Fraud 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.