

Internal Audit Department

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

ORANGE COUNTY BOARD OF SUPERVISORS' FRAUD HOTLINE ANNUAL ACTIVITY REPORT

ADMINISTERED BY THE OC INTERNAL AUDIT DEPARTMENT

FOR THE TWELVE-MONTH PERIOD
JANUARY 1, 2014 THROUGH DECEMBER 31, 2014



OC Fraud Hotline Activity Summary:

Actionable Cases Arising During This Reporting Period	33	
Cases Referred Out to Other Agencies	309	
Non Actionable Items	53	
Total Hotline Reports This Period		395

From January 1, 2014 through December 31, 2014, we closed 48 Fraud Hotline cases. Of these cases, 15 (31%) were substantiated and 33 (69%) were not substantiated. For calendar years 2011 – 2014, we closed 192 Fraud Hotline cases. Of these cases, 52 (27%) were substantiated and 140 (73%) were not substantiated.

AUDIT NO: 1403-B
REPORT DATE: FEBRUARY 3, 2015

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ORANGE COUNTY BOARD OF SUPERVISORS' **Internal Audit Department**

GAO & IIA Peer Review Compliant - 2001, 2004, 2007, 2010, 2013

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



OC Fraud Hotline (714) 834-3608



Transmittal Letter



Audit No. 1403-B February 3, 2015

TO: 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

In accordance with the provisions of California Government Code Section 53087.6, the OC Fraud Hotline serves as a means to discover, investigate and remediate acts of fraud, waste or abuse involving County employees, as defined by the statute.

We have completed our annual report concerning the operation of the OC Fraud Hotline. The Bylaws of the Orange County Audit Oversight Committee, Section VI.c., Scope of Committee's Authority and Objectives, delegate 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 January 1, 2014 through December 31, 2014.

The attached report includes a statistical summary of OC Fraud Hotline activities for Calendar Years 2011 through 2014, inclusive, 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
Frank Kim, Acting 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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Report to the Board of Supervisors***

*For the Twelve-Month Period
January 1, 2014 through December 31, 2014
Audit No. 1403-B*

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OC Internal Auditor's Report



Audit No. 1403-B

February 3, 2015

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

Report Highlight

From January 1, 2014 through December 31, 2014, we closed 48 Fraud Hotline cases. Of these cases, 15 (31%) were substantiated and 33 (69%) were not substantiated. For calendar years 2011 – 2014, we closed 192 Fraud Hotline cases. Of these cases, 52 (27%) were substantiated and 140 (73%) were not substantiated.

Below is the OC Fraud Hotline activity for the period January 1, 2014 through December 31, 2014. For detailed information about our OC Fraud Hotline process, please see Exhibit A.

1. Statistical Summary

The Internal Audit Department received **395** Hotline allegations, complaints or other contacts during the reporting period. **360** of these reports were made anonymously, while **35** reports were made by individuals who identified themselves. IAD received **330** reports from phone monitoring vendor, **53** by email; **9** by letter, **1** fax, and **2** in person. These items are categorized in **Table 1**.

Table 1	
Summary of Allegations/Complaints	
New Actionable Cases	33
Referred to Appropriate Entity	309
Non Actionable Items	53
Total Allegations/Complaints	395

2. Types of Allegations/Complaints

Cases opened during the period concerned various complaints and allegations such as: 1) time abuse; 2) mismanagement, misuse and/or misappropriation of County funds; 3) non-compliance with Government Code; 4) wrongful termination; 5) names forged on official records, and non-professionals making medical decisions; 6) employee bringing their child to work; 7) non-compliance with County contracting policy; 8) employee falsifying work disabilities; 9) violation of Gift Ban Ordinance; 10) non-compliance with County policy; 11) violation of Hatch Act (prohibiting partisan political candidacies by state and local employees whose salaries are 100% federally funded); 12) unauthorized access to information; 13) County equipment/facilities used for personal purposes; 14) hostile work environment; 15) employee not properly credentialed or licensed; 16) vendor using County equipment for non-County business, time abuse, and unprofessional behavior; 17) fraudulent billing practices by vendor; and 18) inadequate vendor internal controls over cash receipts.



Non Actionable Items

These include insufficient information and not applicable issues. Examples include: failure to state sufficient facts on which to base any investigation; inquiries regarding the status of other investigations; or requests for information; and wrong numbers.

Referrals to Other Entities

Allegations involving issues beyond the responsibilities of the County of Orange are referred to appropriate County and non-County agencies.

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

Table 2	
Types of Allegations/Complaints	
New Actionable Cases	
• Employee Misconduct	26
• Contractor Misconduct	5
• Non-County	2
Total Cases Opened	33
Items Not Handled by OC Fraud Hotline	
• Welfare Fraud Referred by Vendor	240
• Non-County Referred by Vendor	44
• Referred by IAD to other County Departments	25
Total Items Referred Out	309
Non Actionable Items	
Insufficient Information	9
Not Applicable	44
Total Non Actionable Items	53
Total OC Fraud Hotline Complaints	395



3. Status of Allegations

Table 3 below summarizes the status of cases for the period January 1, 2014 through December 31, 2014.

Table 3							
Status of Allegations							
Actionable Items	Investigations					Closed Cases	
	Carry Over Cases	New	Total	Under Investigation	Closed	Substantiated	Not Substantiated
Employee	34	26	60	18	42	12	30
Contractor	3	5	8	3	5	2	3
Non-County	1	2	3	2	1	1	
Total	38	33	71	23	48	15	33

4. Allegations Substantiated

In the 15 cases where the allegations were substantiated, the individual cases dealt with:

- Inadequate oversight and accounting of Special Revenue Funds
- Mismanagement of County funds
- Mismanagement within a department
- Non-compliance with County Contract Policy Manual
- Inadequate oversight and accounting of County assets
- Conducting private business on County time
- Promotional favoritism
- Time abuse
- Hostile work environment
- Vendor not providing required services
- Fraudulent billing practices by vendor

Substantiated cases are referred to the appropriate County department or agency for their resolution, including corrective measures and discipline, as deemed warranted by departmental management.

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							
	2011		2012		2013		2014	
Actionable Items Per Year	58		59		63		33	
Items Referred Out	78		109		176		309	
Insufficient Information/Not Applicable	7		12		34		53	
Total Hotline Allegations	143		180		273		395	

OC Internal Auditor's Report



	Calendar Year									
	STATUS OF ALLEGATIONS/COMPLAINTS AND CLOSED RESULTS									
	2011	%	2012	%	2013	%	2014	%	4 Year Average	%
Items Under Investigation or Pending at End of Reporting Period	7		7		39		23			
Substantiated	11	21%	11	21%	15	37%	15	31%	52	27%
Not Substantiated	41	79%	41	79%	25	63%	33	69%	140	73%
TOTAL CLOSED	52	100%	52	100%	40	100%	48	100%	192	100%



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 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 County operations and employee misconduct are properly addressed.

Types of Complaints

The OC Fraud Hotline is intended to serve as a means 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 and departmental policies 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 vendor refers callers to the appropriate Hotline, e.g., Social Services Agency Welfare Fraud Hotline, for their investigation. IAD does not then perform any further 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 or on-line complaints, 'contracted service professionals' prepare a Hotline Report Form which aids in the capturing of the reporting party's allegations and related information. For email, letter and in-person complaints, IAD staff prepares a summary of the allegations and records it in the IAD Hotline Control Log.
2. For each Hotline complaint logged by IAD, IAD assigns a sequential Hotline control number.
3. The IAD Director reviews the specifics of a complaint's allegations and conducts a preliminary assessment with the advice and assistance of a Senior Audit Manager and/or the Hotline Manager, as to the merits of a complaint. Factors considered in this assessment include the nature of the allegations made in the complaint, as well as the level of detail provided, such as relevant times, dates, locations, and individuals involved. Upon determination that the complaint lends itself to a meaningful investigation, the IAD Director then decides the appropriate course of action.
4. At the direction of the IAD Director, IAD will follow one of the courses of action as follows:
 - a) Referral of the matter to another governmental department (either within Orange County or outside);
 - b) Assignment of the matter to another County department for investigation of the complaint by the department, under the supervision of, and at times in cooperation with, IAD personnel;
 - c) Investigation of the matter solely by IAD personnel; or
 - d) Retention by IAD of an outside investigator who conducts an investigation and reports all findings and conclusions to IAD.

Each of these courses of action is discussed below.

a. Referral of Case by IAD to a County Department

IAD regularly receives complaints of suspected fraud, waste or abuse that are the investigative responsibility of other County departments. Such complaints include, but are not limited to, reports of Medi-Cal or Welfare Fraud, Worker's Compensation Fraud, and Child and Elder Abuse. As noted above, callers making such reports are referred by "contracted service professionals" to appropriate hotline numbers operated by other governmental agencies.

For email and mail complaints made directly to IAD regarding such "referral" allegations, IAD prepares a Referral Letter setting forth the allegations made, and refers the matter for investigation or other disposition at the discretion of the other County department or outside agency. In its Referral Letter, IAD discloses to the recipient that it will take no further action in the matter, and closes its file shortly after submission of the letter.



b. Assignment of Case by IAD to a Department

IAD sends a formal Letter of Notice to the director of the department where the alleged misconduct occurred, assigning the case for a confidential investigation within that department.

IAD requests written acknowledgment of the receipt of the formal Letter of Notice within five working days, monitors the ongoing progress of any resulting investigation, and provides advice or assistance as needed. If the facts warranted, IAD personnel may actually cooperate with or assist Department personnel in their investigation.

Upon completion of the investigation, department personnel prepare a written report of their findings and conclusions describing any control or policy weaknesses noted, along with any resulting corrective measures for policy or control weaknesses identified. The report is submitted confidentially to the Director of IAD.

The Director of IAD, with the advice and assistance of a Senior Audit Manager and/or the Hotline Manager, reviews the investigative report to determine whether the investigation has been completed in a thorough manner, and whether appropriate corrective actions for policy or control weaknesses have been taken or will be implemented. If so, IAD then closes the case and sends a formal Close-Out Notice of that action to the department director. Insofar as policy or control issues may take time to study and correct, IAD will track them separately from the results of the investigation until they are satisfactorily resolved.

If not satisfied with the investigation, the IAD Director may contact the director of the department to discuss plans for further handling. These options may include a continuation of the investigation by department personnel in accordance with the IAD Director's instructions, or the performance of a separate investigation conducted by IAD personnel.

c. Investigation by Internal Audit Department

If a Hotline complaint involves significant fraud or waste of County assets, or poses issues of a sensitive nature, the IAD Director may assign IAD personnel to conduct the investigation instead of assigning it to the subject department. Additionally, when a Hotline complaint contains allegations of misconduct by a department director, or another executive employee, IAD may conduct the investigation itself in order to avoid the conflict of interest that an 'internal investigation' by the department presents under such circumstances.

In these types of cases, a formal Letter of Notice of a pending investigation is given by IAD to either the director of the subject department, or if that director is implicated, to his or her immediate supervisor. Upon completion of the investigation, IAD personnel prepare a confidential written report of all findings and conclusions. In addition, IAD may identify policy and control issues revealed by the investigation, as well as its recommendations for possible corrective action. The confidential investigative report is typically distributed to those County executives who received copies of the initial formal Letter of Notice.



IAD will then monitor the status of any corrective measures for control or policy weaknesses, and, depending on the content and context of the particular issues presented, such process may or may not be treated confidentially. To that end, IAD may follow up with a questionnaire or other correspondence inquiring into the present and planned status of corrective measures for policy or control weaknesses. IAD's follow-up questionnaires are intended to extend and develop discussion between IAD and County management regarding the courses of action to pursue in addressing any policy or control weaknesses revealed by IAD's investigation.

d. Retention by IAD of Outside Investigator

On occasion, a Hotline complaint raises issues of such complexity and/or magnitude that IAD lacks sufficient expertise and/or staff resources to conduct the investigation with its own personnel. In such instance, an outside investigator is retained by IAD to conduct the investigation. The progress of such an investigation is actively monitored by IAD, and the investigative report is made confidentially to IAD.

5. After review by the Director of IAD, the investigative report is issued confidentially to the subject department director, or the director's supervisor, as appropriate. If the findings and conclusions set forth in the investigative report warrant it, IAD may supplement the report with its own recommendations and/or observations regarding policy or control weaknesses. As with a report prepared by its own staff, it is IAD's practice to monitor the status of any resulting corrective measures for policy or control weaknesses made by management.

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 sometimes appear 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.