



INTERNAL AUDIT DEPARTMENT
COUNTY OF ORANGE

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**ORANGE COUNTY
FRAUD HOTLINE ACTIVITY**

**For the Period
January 1, 2005 – December 31, 2005**

AUDIT NUMBER: 2503

REPORT DATE: February 17, 2006

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Deputy Director:	Eli Littner, CPA, CIA
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Orange County Fraud Hotline Activity

For the Period January 1, 2005 – December 31, 2005

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Transmittal Letter

Audit No. 2503

February 17, 2006

TO: Members, Board of Supervisors

FROM: Peter Hughes, Ph.D., 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. This report is for the period of January 1, 2005 through December 31, 2005. The attached report includes background information on the Hotline including the establishment, purpose, and the processing of Hotline calls and a statistical summary of Hotline activities for the period. In addition, we provided an update to our response to the recommendations in the 2003-2004 Grand Jury Report "County Fraud Hotline – Does it Work?"

We would like to acknowledge the courtesy and cooperation extended to us by the management of the various County agencies/departments during our Hotline process. As always, I remain available to answer any questions you may have. Please contact me directly or Eli Littner, Deputy Director at (714) 834-5899, or Alan Marcum, Audit Manager at (714) 834-4119 if we can be of 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

Internal Audit Department Orange County Fraud Hotline Activity

Background

The Orange County Internal Audit Department (IAD) established and runs 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 Hotline is a best business practice for both private and governmental entities.

The Hotline is intended for County employees, vendors, and the public to report suspected fraud, 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.

The Hotline is available for calls twenty-four hours a day, seven days a week. IAD staff monitors the telephone during business hours. Callers can leave anonymous information or identify themselves during business hours and after hours, or can choose to speak with staff during business hours. 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. 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.

In processing the Hotline calls, the IAD staff prepares the Hotline Information Form which aides in the capturing of needed information, assigns a unique Hotline control number, and records the call in the Hotline Control Log. The staff person provides the completed Hotline Information Form to the Hotline Audit Manager. The Audit Manager reviews the specifics of the allegation and prepares a letter detailing the complaint. The IAD Director or Deputy Director reviews the information and a formal Action Request with all relevant information is routed directly to the agency/department head for immediate investigation. The agency/department heads 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.

The 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. Depending upon the facts of each allegation, IAD may conduct its own on-site visit and review. Typically the Director, Deputy Director or Manager will discuss with senior management the allegation and the status of the agency/departments investigation and determine a course of action for an IAD review. 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.



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.

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 maintain Hotlines. For examples, 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.

1. Statistical Summary

The Internal Audit Department received 17 calls during the period. These calls are categorized in **Table 1**.

Table 1 Allegations	
Actionable Calls	10
Referred and Informational Calls	7
Insufficient Information	0
Total	17



2. Cases Opened

Cases opened during the period concerned allegations of employee misconduct, e.g., one (1) caller alleged vendor over billing; one (1) alleged poor project management, and one (1) caller alleged inappropriate distribution of County assets. When allegations 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 State Welfare Fraud Hotline for action. **Table 2** identifies complaint type and the total number of cases opened during this period.

Table 2 Cases Opened Type of Allegations	
Employee Misconduct	10
Welfare Fraud (Referred Out)	2
Non-County (Referred Out)	3
Information Requests (Referred to County Departments)	0
Referred to Sheriff-Coroner	1
Other	1
Total	17

3. Cases Closed

During the period 11 cases were finalized and closed. Two (2) of the cases were opened in 2004, and nine (9) cases were opened in 2005. As of December 31, 2005, one (1) case remains active. **Table 3** categorizes the 11 cases closed during this period.

Table 3 Cases Closed Reason for Closing	
Investigated by County agency/department - Allegation Substantiated	3
Investigated by County agency/department - Allegation Not-Substantiated	8
Insufficient Information	0
Total	11



Case Highlights

In the three (3) cases where the allegations were substantiated, one (1) dealt with an employee falsifying his mileage reimbursement reports; one (1) dealt with employees being reimbursed for mileage at a higher rate than the Memorandum of Understanding (MOU); and the last case dealt with the improper use of a revolving cash fund. In all three (3) cases, appropriate corrective action was taken.

4. **Update to IAD Response to 2003-2004 Grand Jury Report “County Fraud Hotline – Does it Work?”**

The Grand Jury report contained seven (7) recommendations on our Hotline process. The IAD has now completed implementing corrective action on all seven (7) of the recommendations.

Recommendation No. 1: Completed

We formalized, approved, and issued the Hotline operating procedures.

Recommendation No. 2: Completed

IAD finished working with CEO – Telephone/Network Related Service to ensure our Hotline telephone system for business hours provides detailed voice message instructions and information to the caller.

Recommendation No. 3: Completed

IAD finished working with CEO – Telephone/Network Related Service to ensure our Hotline telephone system is available for non-business hours and provides detailed voice message instructions and information to the caller..

Recommendation No. 4: Completed

We updated the list of reference hotline phone numbers.

Recommendation No. 5: Completed

A new Fraud Hotline Poster was completed and distributed.

Recommendation No. 6: Completed

IAD finished working with CEO/IT to enhance the IAD web page to include **anonymous** On-Line Fraud Reporting. In addition, information was added to the web page on Whistleblower Protection and a listing of Other Fraud Hotline Phone Numbers.

Recommendation No. 7: Completed

We included clear language in the Hotline operating procedures and telephone system to indicate that County employees are protected by California Whistleblower laws.

