**INTERNAL AUDIT DEPARTMENT**
**COUNTY OF ORANGE**

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# Orange County
# Fraud Hotline Activity
## For the Period
## September 24 – December 31, 2004

**REPORT NUMBER: 2402** **REPORT DATE: January 28, 2005**

**Audit Director:** **Peter Hughes, Ph.D., MBA, CPA**
**Deputy Director:** **Eli Littner, CPA**
**Audit Manager:** **Alan Marcum, MBA, CPA**

*The Internal Audit Department is an independent audit function reporting directly to the Orange County Board of Supervisors.*

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**COUNTY OF ORANGE**
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**OFFICE OF THE DIRECTOR**

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**PETER HUGHES**
Ph.D., MBA, CPA, CIA, CFE, CITP
DIRECTOR

MAILING ADDRESS:
400 CIVIC CENTER DRIVE WEST
BUILDING 12, ROOM 232
SANTA ANA, CA 92701

TELEPHONE: (714) 834-5475
FAX: (714) 834-2880
EMAIL: peter.hughes@ocgov.com
WEBSITE: www.oc.ca.gov/audit/

**Transmittal Letter**

Audit No. 2402

January 28, 2005

Members, Board of Supervisors
Hall of Administration Building
10 Civic Center Plaza
Santa Ana, CA 92701

Dear Honorable Members:

We have completed our report concerning the operation of the Orange County Fraud Hotline. This report is for the period of September 24, 2004 through December 31, 2004. 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.

Respectfully submitted,

Peter Hughes, Ph.D., CPA
Director

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



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# 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 the use of County employees as a vehicle for reporting suspected fraud, misuse of County resources by vendors, contractors, or County employees, and significant violations of County policy. 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.

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.

IAD is currently enhancing its website to assist anyone wishing to report fraud. The improvements will be complete by the end of February 2005. 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 twelve calls during the period. These calls are categorized in **Table 1**.

| **Table 1**<br>**Allegations** | |
|---|---|
| Actionable Calls | 2 |
| Referred and Informational Calls | 9 |
| Insufficient Information | 1 |
| **Total** | 12 |

## 2. Cases Opened

Cases opened during the period concerned allegations of employee misconduct, i.e., one caller alleged time abuse and noncompliance with Government Code, and the other caller alleged unprofessional employee conduct. 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<br>Cases Opened<br>Type of Allegations** | |
|---|---|
| Employee Misconduct | 2 |
| Welfare Fraud (Referred Out) | 8 |
| Non-County (Referred Out) | 0 |
| Information Requests (Referred to County Departments) | 1 |
| Insufficient Information | 1 |
| **Total** | 12 |

## 3. Cases Closed

During the period four cases were finalized and closed. As of December 31, 2004, two cases remain active. **Table 3** categorizes the four cases closed during this period.

| **Table 3<br>Cases Closed<br>Reason for Closing** | |
|---|---|
| Investigated by County agency/department - Allegation Substantiated | 0 |
| Investigated by County agency/department - Allegation Not-Substantiated | 4 |
| Insufficient Information | 0 |
| **Total** | 4 |

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

The Grand Jury report contained seven recommendations and IAD has completed implementing corrective action on five of the recommendations.

Recommendation No. 1: Completed
We finalized and issued the Hotline operating procedures.

Recommendation No. 2: Completed
IAD working with CEO – Telephone/Network Related Service has enhanced our Hotline telephone system for business hours.

Recommendation No. 3: Completed
IAD working with CEO – Telephone/Network Related Service has enhanced our Hotline telephone system for non-business hours.

Recommendation No. 4: Completed
We updated the list of reference hotline phone numbers.

Recommendation No. 5: In Process
IAD is working with RDMD/Publishing to design a new Fraud Hotline Poster. Once designed, we will present the new design to CEO, County Counsel and agency/department heads for their comments. We expect to have this completed and distributed by the end of June 2005.

Recommendation No. 6: In Process
IAD is working with CEO/IT to enhance the IAD web page, which will be complete by the end February 2005.

Recommendation No. 7: Completed
We included verbiage in the Hotline operating procedures and telephone system to indicate that County employees are protected by California Whistleblower laws.