

March 8, 2002

To the Honorable Chairman  
of the Board of Supervisors  
of the County of Milwaukee

We have completed an annual report concerning operation of the Department of Audit Hotline. This year's report also includes other related audit activities undertaken by the Department of Audit during 2001.

The attached report includes a statistical summary of these activities, as well as a brief narrative describing the nature of various categories of cases resolved during the year. In addition, some of the more interesting cases closed during 2001 are presented in greater detail. Direct savings attributed to Audit Hotline and audit activity related to fraud, waste and abuse in 2001 totaled \$238,152.

You will note from these 2001 case highlights that the nature of alleged improprieties presented to the Department of Audit for investigation has, as in recent years, remained complex. As the Department of Audit begins its ninth year of operating the Hotline, the experience gained from working cooperatively with County departments, the District Attorney's Office, the Sheriff's Department and other law enforcement agencies has improved the effectiveness of our efforts to combat waste, fraud and abuse in Milwaukee County government. We believe the attached report demonstrates the value of the department's activities in this regard.

Please refer this report to the Committee on Finance and Audit.

Jerome J. Heer  
Director of Audits

JJH/DCJ/cah

Attachment

cc: Milwaukee County Board of Supervisors  
Janine Geske, Interim County Executive  
Terry Kocourek, Acting Director, Department of Administration  
Rob Henken, Director of Research, County Board Staff  
Lauri J. Henning, Chief Committee Clerk, County Board Staff

**2001 Annual Report  
Audit Hotline and Audit Activity  
Related to Fraud, Waste, and Abuse**

**March 2002**

**Committee on Finance and Audit**

**Lynne D. De Bruin, Chairman  
Linda Ryan, Vice-Chairman  
Richard D. Nyklewicz, Jr.  
Lee Holloway  
Robert Krug  
Jim Schmitt  
Joe Davis, Sr.**

**Milwaukee County Department of Audit**

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**Review Team:**

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**2001 Annual Report  
Audit Hotline and Audit Activity  
Related to Fraud, Waste and Abuse**

**Background**

The Milwaukee County Board of Supervisors approved the establishment of an Audit Hotline on September 23, 1993. The Hotline was created for concerned citizens and other interested individuals to report instances of fraud, waste or abuse in County government. Callers are not required to identify themselves and, if they do, identification is kept confidential.

A County Board Resolution (File No. 95-210) directed the Department of Audit to submit annual reports on Hotline activities to the Committee on Finance and Audit. This report provides a statistical summary of Hotline and other related audit activity during the past year, a description of various categories of resolved cases, as well as details of selected cases closed during 2001. Direct savings attributed to Audit Hotline and audit activity related to fraud, waste and abuse in 2001 totaled \$238,152.

**Statistical Summary**

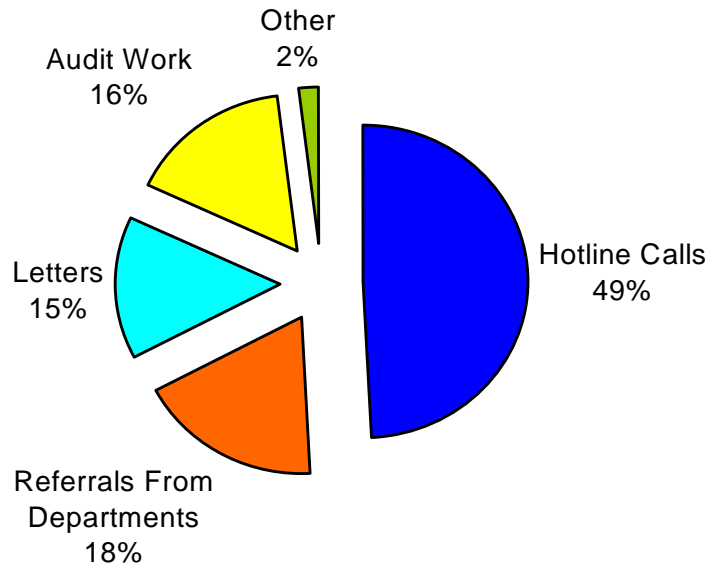
The Department of Audit received 55 contacts concerning allegations of fraud, waste or abuse in 2001. These contacts are categorized by source in **Table 1**.

**Table 1  
2001 Allegations of Fraud, Waste or Abuse  
Source of Contact**

Hotline Calls	27
Referrals from Departments	10
Letters	8
Audit Work	9
Other	1
<b>Total</b>	<b>55</b>

This same information is presented graphically as **Figure 1**.

**Figure 1**  
**2001 Allegations of Fraud, Waste or Abuse**  
**Source of Contact**



Cases Opened

Cases opened concerned allegations of employee fraud or misconduct, waste or inefficiencies, and vendor misconduct, among others. When allegations involve issues beyond the jurisdiction of County government, they are referred to appropriate non-County agencies. All allegations of fraud concerning Department of Human Services (DHS) program clients are referred to the DHS Fraud Unit to avoid duplication.

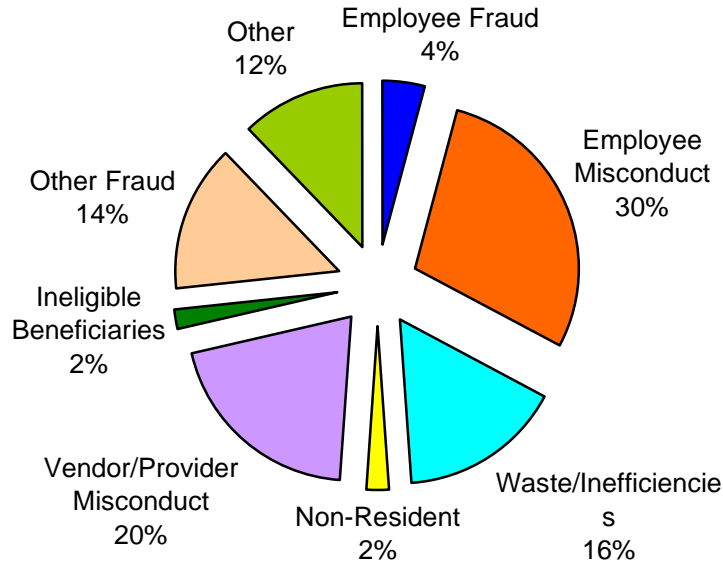
**Table 2** identifies, by complaint type, the total number of cases opened in 2001.

**Table 2**  
**2001 Cases Opened**  
**Type of Allegation**

Employee Fraud	2
Employee Misconduct	14
Vendor/Provider Misconduct	10
Waste/Inefficiencies	8
Other Fraud	7
Other	6
Non-Resident	1
Ineligible Beneficiaries	1
<b>Total</b>	<b>49</b>

This same information is presented graphically as **Figure 2**.

**Figure 2**  
**2001 Cases Opened**  
**Type of Allegation**



Cases Closed

During 2001, 46 cases were closed for a variety of reasons. Of these, 12 cases were opened in 2000, and 34 were opened during 2001. As of year-end 2001, 19 cases remained active.

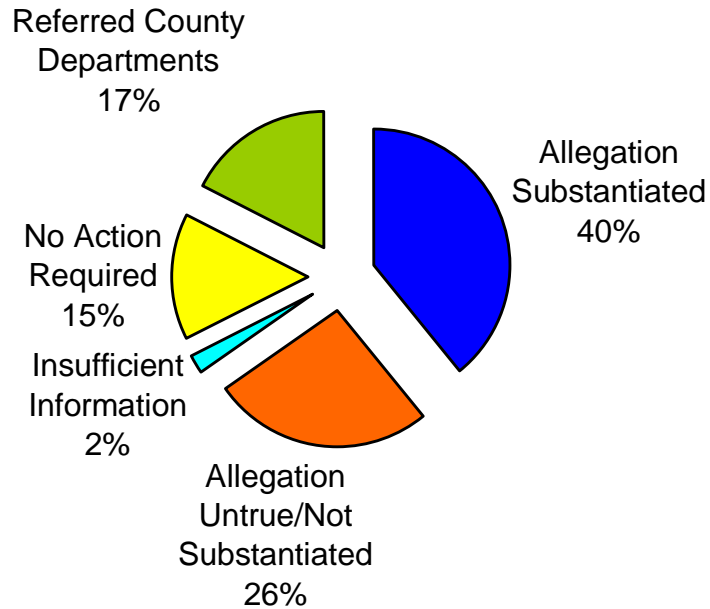
**Table 3** categorizes the 46 cases closed in 2001. Eighteen cases were closed because the allegations were determined to be either correct or substantially correct, and corrective measures were either implemented or in the process of being implemented. Twelve cases were determined to be incorrect allegations. One case was closed due to insufficient information. Of the remaining 15 cases closed in 2001, eight were referred to a County department and in seven cases, no action was required.

**Table 3**  
**2001 Cases Closed**  
**Reason for Closing**

Allegation Substantiated	18
Allegation Untrue/Not Substantiated	12
Referred to County Department	8
No Action Required	7
Insufficient Information	1
<b>Total</b>	<b>46</b>

This same information is presented graphically as **Figure 3**.

**Figure 3**  
**2001 Cases Closed**  
**Reason for Closing**



### **Case Highlights**

Following are descriptions of some of the more interesting cases closed during 2001. The diverse nature of these cases demonstrates the value Countywide of maintaining the Audit Hotline.

#### Employee Fraud

During the performance of an audit of the Behavioral Health Division's Outpatient Client Trust Accounts, we identified several internal control weaknesses that have since been addressed with additional segregation of duties and improved procedures. After questions were raised by Department of Audit staff at one office location, a County employee came forward and admitted stealing funds in association with a check made payable to a Community Support Program client. Subsequently, our fraud investigation resulted in the discovery of three additional checks that had also been stolen by the employee. When confronted with these checks, the employee admitted to stealing them, as well as a fifth check. The five checks totaled \$2,815. (The client's account was subsequently reimbursed by the perpetrator for the total amount stolen.)

We referred this matter to the District Attorney's Office. The employee was charged and convicted of forgery, a Class C Felony. The perpetrator, who was terminated from County employment, was sentenced to four months in the House of Correction and four years probation.

### Child Welfare Vendors

Separate audits issued by the County Department of Audit and the State Office of Program Review and Audit (OPRA) in 2001 identified significant problems with the monitoring of private agencies providing services for the Child Welfare Division of the County Department of Human Services (DHS). Collectively, the audits identified a number of vendors within the DHS Integrated Provider Network that had been paid for services that were either unallowable or were not supported by agency records. Based on the audit findings, several vendors were suspended from the network. At the request of DHS, we reviewed additional documentation provided by those vendors who challenged the original audit findings. Our follow-up reviews of five agencies resulted in verification of \$186,320 in disallowed charges. Specifically:

- We adjusted the audit findings of one vendor audited by OPRA, reducing the amount of unallowable charges from \$50,517 to \$22,162. The vendor paid this amount to DHS in full and was reinstated into the Integrated Provider Network.
- We reviewed documentation provided by another vendor for \$84,888. Of this amount, we recommended recoupment by DHS of \$29,573 (35%) and further recommended DHS perform a complete review of all subsequent charges submitted by this vendor prior to reinstatement. According to DHS, this vendor has subsequently complied with a corrective action plan, has paid 40% of the disallowed amount (with the remainder being deducted from monthly payments) and has been reinstated into the Integrated Provider Network.
- Similarly, we reviewed additional documentation provided by another vendor for \$88,983 in disallowed charges. Based on the additional documentation, we reduced the disallowance to \$60,345 and recommended that DHS carefully scrutinize all future charges by this vendor. According to DHS, this vendor paid the disallowed amount in full and decided to terminate its participation in the Integrated Provider Network.
- For a fourth vendor, based on additional documentation, we reduced the disallowed amount of \$91,453 to \$60,573. However, because the adjusted disallowed figure still accounted for more than 50% of all payments to this vendor in 2000, we recommended that DHS continue its suspension of this agency until a complete review of all subsequent charges could be made by DHS Quality Assurance staff. According to DHS, this vendor was terminated in December 2001 for non-compliance with a corrective action plan. In addition, the matter of recouping the \$60,573 in disallowed payments was referred to Corporation Counsel.
- Finally, we re-affirmed the original disallowance of \$13,667 from a fifth vendor. In addition, we performed a limited background check on the head of the agency and noted that this individual had been charged and convicted of:
  1. Possession of Controlled Substance (tetrahydrocannabinols) with intent to deliver, party to a crime while possessing a dangerous weapon, and
  2. Possession of Controlled Substance (cocaine), party to crime while possessing a dangerous weapon.

We noted that the agency head had been convicted of these crimes under an alias in 1994.

Based on this information, DHS has terminated the agency from the Integrated Provider Network in December 2001 and referred the matter of collecting the \$13,667 in disallowed payments to Corporation Counsel.

#### Counterfeit Checks

With assistance from the Department of Audit's Bank Reconciliation staff, our Forensic Auditor continues to work closely with bank officials and law enforcement investigators to identify and track counterfeit check activity against Milwaukee County bank accounts. This fraudulent activity is primarily associated with a Department of Human Services SCRIPTS account (this account has been closed for reasons unrelated to the counterfeit checks) and the House of Correction's (HOC) Inmate Trust Account. The Inmate Trust Account is used by HOC to 'zero out' inmate accounts (used to purchase sundry items while incarcerated) upon discharge from the facility. During 2001 and 2002 to date, the Forensic Auditor, who is both a Certified Public Accountant and a Certified Fraud Examiner, assisted in holding Milwaukee County harmless for approximately \$108,000 in unauthorized banking transactions.

As we noted in a May 1, 2001 memo to the Finance and Audit Committee of the Milwaukee County Board, theft by unauthorized electronic fund transfer and counterfeit checks is on the rise nationally. The advent of sophisticated computer graphics printing capabilities as well as an increase in electronic fund transfers is at the root of this increase in unauthorized transactions. Early detection is key to avoiding losses from unauthorized transactions, as timely notification places the liability on the accepting party and/or the bank. Proactive procedures implemented by the Department of Audit to identify, in a timely manner, questionable transactions on County bank accounts, continue to pay dividends.