

**2003 Annual Report
Audit Hotline and Audit Activity
Related to Fraud, Waste and Abuse**

February 2004

Committee on Finance and Audit

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February 27, 2004

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 and other audit activities related to fraud, waste and abuse undertaken by the Department of Audit during 2003.

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.

While direct savings attributable to Audit Hotline and related audit activity in 2003 totaled just \$2,504, it should be noted that a substantial amount of time was invested in cases opened during the year that involve potentially large amounts of savings, but remain active as of December 31, 2003.

2003 marked the 10th anniversary of the Audit Hotline. Since its inception in 1994, \$1.3 million in direct savings have been realized for an average of \$130,000 per year of operation. Furthermore, it is important to understand that fraudulent activity is typically perpetrated as a series of systematic, repetitive incidents, rather than a singular act. Therefore, exposing a fraudulent act not only results in the direct savings of the incident at hand, but in most instances likely results in additional savings by avoiding future losses. One industry estimate places the value of this avoidance factor as equal to the direct savings. In other words, the financial impact of the fraud investigation effort is estimated to be double the amount of the direct savings. In addition, Audit Hotline activities have a deterrent effect, placing vendors and employees on notice that there is a concerted effort in Milwaukee County to identify, expose and punish perpetrators of fraudulent activity.

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 eleventh 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, as well as local banks and private sector security professionals, 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
Scott Walker, County Executive
Linda Seemeyer, Director, Department of Administrative Services
Terrance Cooley, Chief of Staff, County Board Staff
Steve Cady, Fiscal and Budget Analyst, County Board Staff
Lauri J. Henning, Chief Committee Clerk, County Board Staff

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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 audit activity related to fraud, waste or abuse during the past year, as well as a description of various categories of resolved cases.

While direct savings attributable to Audit Hotline and related audit activity in 2003 totaled just \$2,504, it should be noted that a substantial amount of time was invested in cases opened during the year that involve potentially large amounts of savings, but remain active as of December 31, 2003. The entire amount of direct Hotline savings in 2003 was due to cases involving unauthorized banking transactions.

2003 marked the 10th anniversary of the Audit Hotline. In evaluating the impact of the Audit Hotline, several factors bear mentioning:

- Since its inception in 1994, \$1.3 million in direct savings have been realized for an average of \$130,000 per year of operation.
- It is important to understand that fraudulent activity is typically perpetrated as a series of systematic, repetitive incidents, rather than a singular act. Therefore, exposing a fraudulent act not only results in the direct savings of the incident at hand, but in most instances likely results in additional savings by avoiding future losses. One industry estimate places the value of this avoidance factor as equal to the direct savings. In other words, the financial impact of the fraud investigation effort is estimated to be double the amount of the direct savings.
- Audit Hotline activities have a deterrent effect, placing vendors and employees on notice that there is a concerted effort in Milwaukee County to identify, expose and punish perpetrators of fraudulent activity.
- Audit Hotline investigations have resulted in numerous procedural improvements to strengthen internal controls in operations throughout the County.

- The Department’s Forensic Auditor has provided expertise to several County departments, and often partners with the Department of Health and Human Services Quality Assurance Unit to investigate high risk vendors.

Statistical Summary

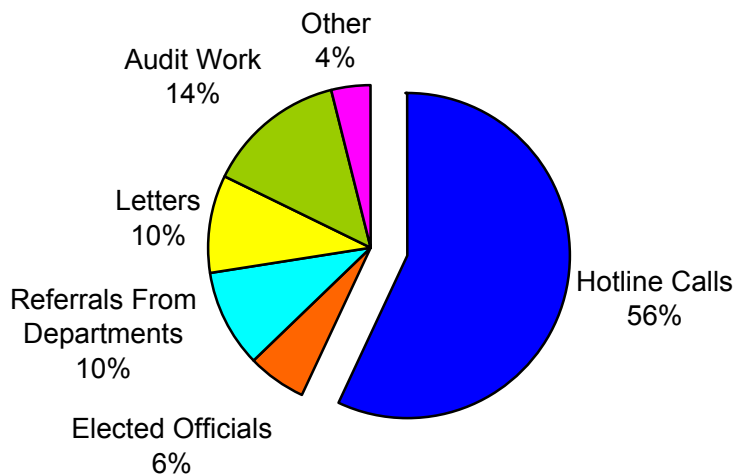
The Department of Audit received 51 contacts concerning allegations of fraud, waste or abuse in 2003. These contacts are categorized by source in **Table 1**.

Table 1
2003 Hotline Allegations of Fraud, Waste or Abuse
Source of Contact

Hotline Calls	29
Referrals from Departments	5
Letters	5
Audit Work	7
Elected Officials	3
Other	2
Total	51

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

Figure 1
2003 Allegations of Fraud, Waste or Abuse
Source of Contact



Cases Opened

Audit Hotline cases opened in 2003 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 welfare fraud are referred to the Department of Health and Human Services' Welfare Fraud Unit to avoid duplication.

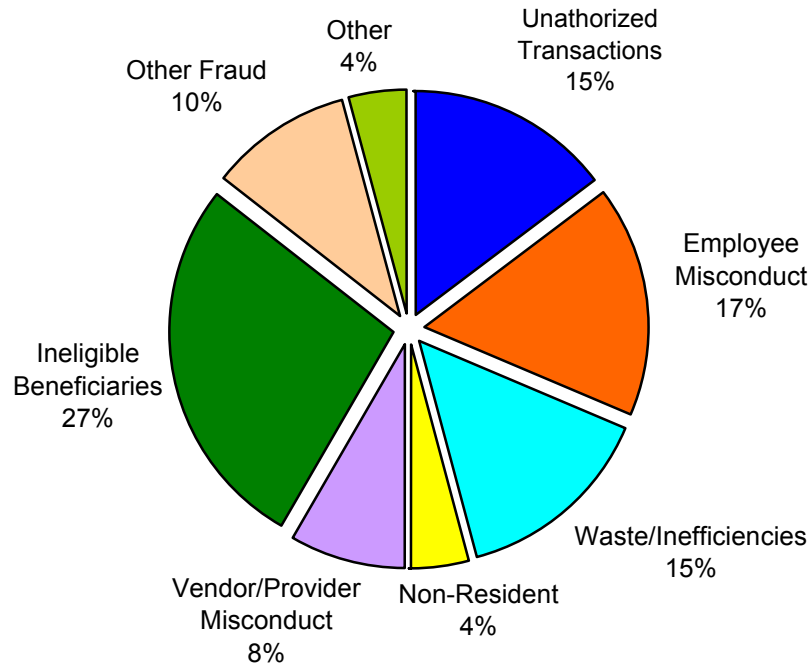
Table 2 identifies, by complaint type, the total number of Audit Hotline cases opened in 2003.

Table 2
2003 Hotline Cases Opened
Type of Allegation

Counterfeit/Unauthorized Transactions	7
Employee Misconduct	8
Vendor/Provider Misconduct	4
Waste/Inefficiencies	7
Other Fraud	5
Other	2
Non-Resident	2
Ineligible Beneficiaries	13
Total	48

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

Figure 2
2003 Hotline Cases Opened
Type of Allegation



Cases Closed

During 2003, 49 Audit Hotline cases were closed for a variety of reasons. Of these, seven cases were opened in 2002 and 42 were opened in 2003. As of year-end 2003, six cases remained active.

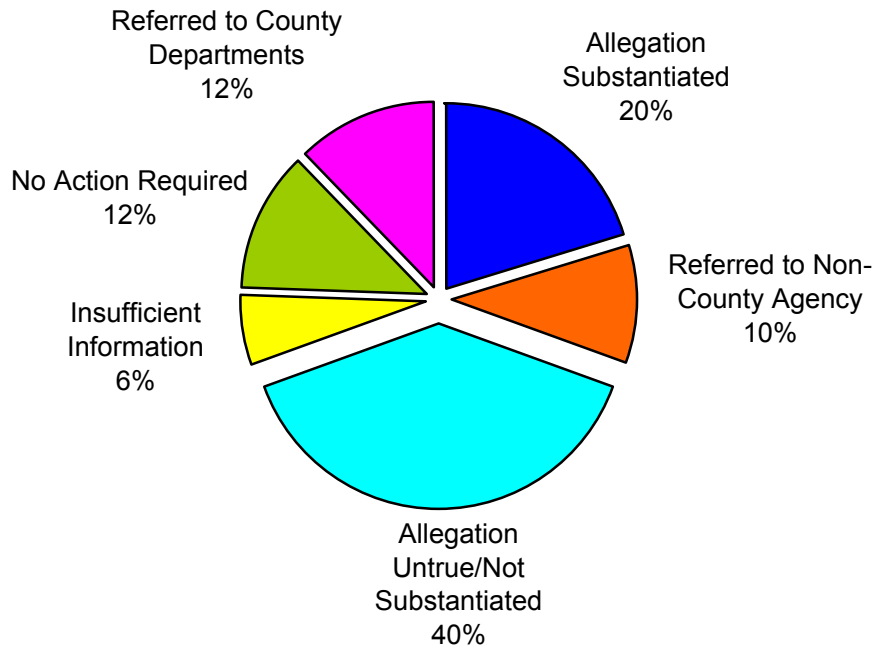
Table 3 categorizes the 49 cases closed in 2003. Ten cases were closed because the allegations were determined to be either correct or substantially correct, and measures to address the problems measured either implemented or in the process of being implemented. Nineteen cases were determined to be either incorrect allegations, or we were unable to substantiate the allegation. Three cases were closed due to insufficient information. Of the remaining 17 cases closed in 2003, six were referred to a County department, five were referred to a non-County agency and in six cases, no action was required.

Table 3
2003 Hotline Cases Closed
Reason for Closing

Allegation Substantiated	10
Allegation Untrue/Not Substantiated	19
Referred to County Department	6
No Action Required	6
Insufficient Information	3
Referred to Non-County Agency	5
Total	49

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

Figure 3
2003 Hotline Cases Closed
Reason for Closing



Counterfeit Checks

With assistance from the Department of Audit Bank Reconciliation staff, our Forensic Auditor continues to work closely with bank officials and law enforcement investigators to identify and track counterfeit check/unauthorized transaction activity against Milwaukee County bank accounts. This fraudulent activity is primarily associated with a Department of Health and Human Services SCRIPTS (payment) account, the Sheriff's Department Trust Account 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 2003, the Forensic Auditor, who is both a Certified Public Accountant and a Certified Fraud Examiner, assisted in holding Milwaukee County harmless for \$2,504 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 greater use of electronic fund transfers, is at the root of this increase in bogus 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 questionable transactions on County bank accounts continue to pay dividends.