

**2004 Annual Report
Audit Hotline and Audit Activity
Related to Fraud, Waste and Abuse**

January 2005

Committee on Finance and Audit

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Department of Audit

Milwaukee County

Jerome J. Heer

• Director of Audits

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• Deputy Director of Audits

January 18, 2005

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 related audit activities undertaken by the Department of Audit during 2004.

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 2004 are presented in greater detail. Savings to taxpayers of Milwaukee County and other jurisdictions that are directly or partially attributable to Audit Hotline activity in 2004 totaled \$1,249,032.

During 2004, the Milwaukee County Department of Audit was honored by the National Association of Local Government Auditors with an honorable mention award for special projects for its Hotline activities. Following this national recognition, we received a number of inquiries from other jurisdictions, including the City of Milwaukee, and provided information to assist in the establishment of similar efforts in local governments across the country.

You will note from the 2004 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 12th 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
Scott Walker, County Executive
Terrence Cooley, Chief of Staff, County Board Staff
Linda Seemeyer, Director, Department of Administrative Services
Steve Cady, Fiscal and Budget Analyst, County Board Staff
Lauri J. Henning, Chief Committee Clerk, County Board Staff

**2004 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 related audit activity during the past year, a description of various categories of resolved cases, as well as details of selected cases closed during 2004. Savings to taxpayers of Milwaukee County and other jurisdictions that are directly or partially attributable to Audit Hotline activity in 2004 totaled \$1,249,032.

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Statistical Summary

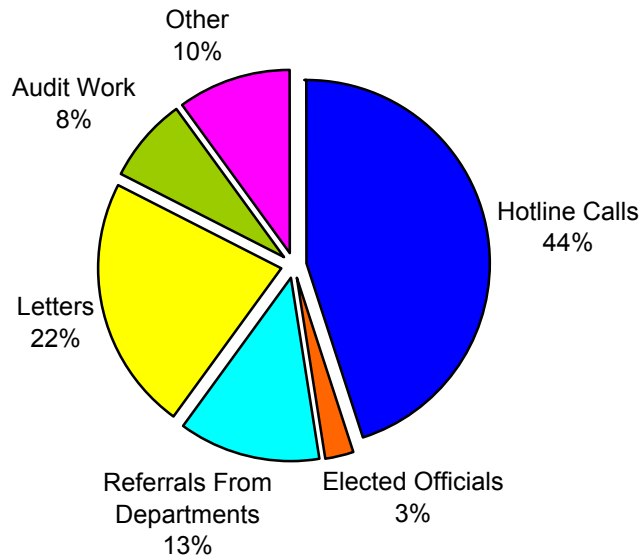
The Department of Audit received 40 contacts concerning allegations of fraud, waste or abuse in 2004. These contacts are categorized by source in **Table 1**.

Table 1
2004 Allegations of Fraud, Waste or Abuse
Source of Contact

Hotline Calls	18
Referrals from Departments	5
Letters	9
Audit Work	3
Elected Officials	1
Other	4
Total	40

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

Figure 1
2004 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.

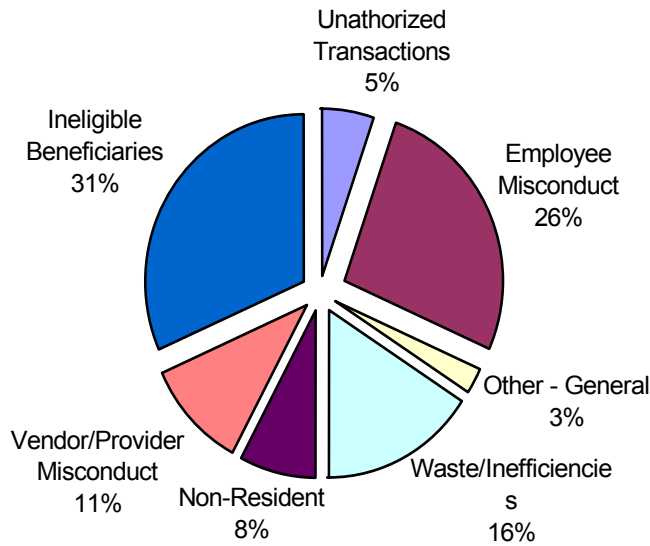
Table 2 identifies, by complaint type, the total number of cases opened in 2004.

Table 2
2004 Cases Opened
Type of Allegation

Employee Misconduct	10
Vendor/Provider Misconduct	4
Waste/Inefficiencies	6
Other General	1
Counterfeit/Unauthorized Transactions	2
Non-Resident	3
Ineligible Beneficiaries	12
Total	38

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

Figure 2
2004 Cases Opened
Type of Allegation



Cases Closed

During 2004, 34 cases were closed for a variety of reasons. Of these, five cases were opened in 2003, 29 were opened during 2004. As of year-end 2004, 10 cases remained active.

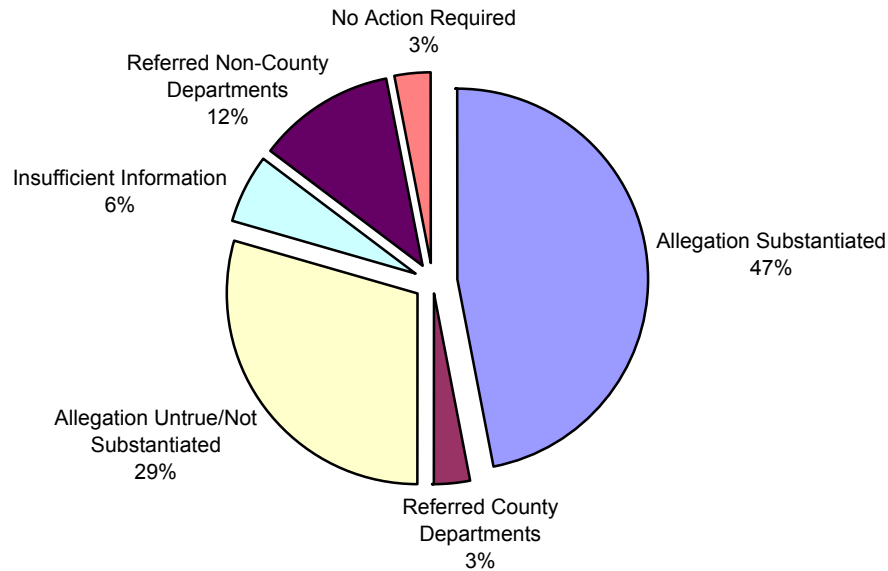
Table 3 categorizes the 34 cases closed in 2004. Sixteen cases were closed because the allegations were determined to be either correct or substantially correct, and corrective measures were either implemented or in the process of being implemented. Ten cases were determined to be either incorrect allegations or we were unable to substantiate the allegation. Two cases were closed due to insufficient information. Of the remaining six cases closed in 2004, one was referred to a County department, four were referred to a non-County agency and in one case, no action was required.

**Table 3
2004 Cases Closed
Reason for Closing**

Allegation Substantiated	16
Allegation Untrue/Not Substantiated	10
Referred to County Department	1
No Action Required	1
Insufficient Information	2
Referred to Non-County Agency	4
Total	34

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

Figure 3
2004 Cases Closed
Reason for Closing



Case Highlights

Following are descriptions of some of the more interesting cases closed during 2004. The diverse nature of these cases demonstrates the value Countywide of maintaining the Audit Hotline.

Special Needs Program Provider

In May 2002, the Department of Health and Human Services (DHHS) entered into a contract with a local non-profit agency to provide Special Needs Child Care (SNCC) Program services. The services included:

- Increase the awareness and access to appropriate quality child care in Milwaukee County for children with special needs.
- Develop a network of fee-for-service providers to support SNCC Program services.
- Build the capacity of child care facilities to better serve special needs children and their families.
- Provide care coordination related to child care for children with special needs.

Based on concerns with large increases in the salary expenses charged to this program, DHHS requested our assistance in reviewing the agency's documentation to determine the accuracy of expenses billed to the County under the SNCC program. We conducted a limited review of the agency's reported expenses associated with the Special Needs Child Care Program for the period May 1, 2002 through July 31, 2003 (at the time, the most recent month for which the agency had submitted an invoice for SNCC services). The agency had submitted program expenses totaling \$1,264,285 during this 15-month period. Our review focused on employee salaries, benefits and payroll taxes, professional fees and occupancy costs, as well as related administrative costs. In that regard we performed the following tasks:

- Reconciled the payroll register to the general ledger of accounting transactions;
- Reconciled Expense Fiscal Reports to the general ledger;
- Examined position descriptions;
- Conducted interviews of past and current employees involved in the program;
- Examined supporting documentation related to professional fees; and
- Reviewed the methodology used to calculate occupancy fees (maintenance, mortgage expenses, utilities, etc.).

We performed our review with the assistance of the Department of Health and Human Services Quality Assurance staff. Based on our review, we determined that the agency submitted a total of \$511,431 in expenses during this 15-month period (\$329,087 for 2002 and \$182,344 for 2003) that should be disallowed for a variety of reasons. The disallowed expenses, comprising 40% of total expenses reported by the agency for the program during the 15-month period reviewed, were not supported by appropriate documentation.

Based on our review and the reportable conditions cited by the agency's independent auditors in a separate engagement, we concluded that the agency had not met the fiscal accountability criteria established for the Special Needs Child Care program. Our disallowance of 40% of the SNCC program expenses reported by the agency for the 15-month period May 1, 2002—July 31, 2003 suggested that funding for the program could be substantially reduced with no programmatic impact on the number of families served.

After presenting the audit findings to the Milwaukee County Board of Supervisors and obtaining concurrence from the State of Wisconsin, Department of Workforce Development, a subsequent review was conducted of agency invoices for the remainder of 2003. Those invoices, spanning services provided from August through December 2003, had been held in abeyance during the audit review. Additional disallowances for that five-month period brought the total amount of disallowed expenses to \$597,963.

As a result of the audit review, DHHS placed the agency on administrative probation, preventing it from obtaining additional contracts with Milwaukee County until a corrective action plan, including repayment of all disallowed payments, was approved. In the aftermath of the review, 6 of 12 agency board members, as well as the President and Chief Executive Officer of the agency, resigned. The agency continues, to provide services and repay the County on a scheduled repayment plan that extends another 17 months from the time of this annual report.

Assistance to District Attorney's Office

In June 2004 the District Attorney's Office requested the assistance of our Certified Fraud Examiner in identifying payments Milwaukee County made to a local child care provider. We identified \$139,896 in payments through the County's SCRIPTS payment system and the corresponding check numbers associated with the payments. We also identified an additional \$509,356 in payments from the State of Wisconsin Department of Workforce Development (DWD) and the corresponding check numbers associated with those payments.

Based on this information, we retrieved the County checks and made copies of both the front and back of the checks. We also contacted DWD staff and requested copies of the front and back of the checks issued by the State of Wisconsin to the provider. We provided this critical evidence to the District Attorney's Office for use in building a fraud case against the provider

As a result, the District Attorney's Office issued charges related to theft, forgery and tax fraud against the former Chief Financial Officer (CFO) of the provider. The charges related to payments totaling about \$750,000. The former CFO has been arrested and is currently in custody in Houston, Texas.

Employee Misconduct

In September 2004, we received two separate allegations related to misconduct involving Milwaukee County employees. The first allegation concerned three Department of Parks and Public Infrastructure (DPPI), Landscape Services employees playing basketball at a job site adjacent to the Greenfield Middle School. Although we did not observe the three employees playing basketball, we were able to record the identification numbers of the two vehicles. The incident was reported to management, and based on admissions from the employees in question, imposed appropriate disciplinary action.

The other incident involved a DPPI, Highway Maintenance crew trimming trees adjacent to I-94. The caller observed the six-members lounging more than they were working. The following day a four-member crew returned and the same type of activity occurred. At this point, the caller contacted the Audit Hotline. Responding to the call, we observed the crew standing around and talking to one another until they left for their lunch break. The same four man crew returned from their lunch and performed very little work as two of the crew stood around and watched one member operate the wood chipper and another insert branches into the chipper.

We reported our observations, as well as the caller's observations, to Highway Operations management. Again, upon questioning of, and admissions by, the employees in question, DPPI management administered appropriate disciplinary measures.

Both incidents occurred in highly visible areas with a high volume of vehicle and pedestrian traffic. As such, this activity undermines the credibility of the Milwaukee County workforce as Milwaukee County taxpayers are informed that departments are operating on 'bare-bones' budgets.

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 and unauthorized transactions against Milwaukee County bank accounts. This fraudulent activity is primarily associated with

the House of Correction's (HOC) Inmate Trust Account. In March 2004, two unauthorized transactions (\$1,231 and \$499) were posted to this account as credit card payments. The transactions were immediately identified as unauthorized and bank officials were notified to obtain the appropriate reimbursement.

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 the increase in 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.



MILWAUKEE COUNTY GOVERNMENT

H O T L I N E

**Ph: (414) 93-FRAUD – Fax: (414) 223-1895
(933-7283)**

Write: Department of Audit Hotline- 2711 W. Wells St., 9th Floor, Milwaukee, WI 53208
Website: www.execpc.com/~milcoaud

A service of the Milwaukee County Department of Audit

For Reporting:

- **Concerns over inefficient Milwaukee County government operations**
- **Incidents of fraud or waste in County government**
- **Ideas for improving efficiency and/or effectiveness of services**

CALLERS NOT REQUIRED TO IDENTIFY THEMSELVES

Other Numbers

Milwaukee County:

Aging - Elder Abuse Helpline 289-6874

**Child Support - TIPS Hotline
(Turn in Parents for Support) 278-5222**

**District Attorney -
Consumer Fraud Unit 278-4585
White Collar Crime Unit 278-4645**

**Mental Health -
Crisis Hotline 257-7222
Crisis Hotline (TTY/TDD) 257-6300**

Sheriff's Department -

**Community Against Pushers 273-2020
(Anonymous Drug Reporting)**

**Guns Hotline 278-4867
W-2 Fraud 289-5799**

State of Wisconsin:

Child Abuse or Neglect Referrals 220-7233

Federal:

**USDA Food Stamp Fraud 1-800-424-9121
Medicare Fraud 1-800-447-8477**