

**2005 Annual Report
Audit Hotline and Audit Activity
Related to Fraud, Waste and Abuse**

February 2006

Committee on Finance and Audit

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February 10, 2006

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 related audit activities undertaken by the Department of Audit during 2005.

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 2005 are presented in greater detail. Direct savings to taxpayers of Milwaukee County and other jurisdictions attributed to Audit Hotline and audit activity related to fraud, waste and abuse in 2005 totaled \$155,635.

You will note from the 2005 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 13th 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, Milwaukee County Executive
Terrance Cooley, Chief of Staff, Milwaukee County Board
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

**2005 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 audit activity during the past year, a description of various categories of resolved cases, as well as details of selected cases closed during 2005. Direct savings attributed to Audit Hotline and audit activity related to fraud, waste and abuse in 2005 totaled \$155,635.

Statistical Summary

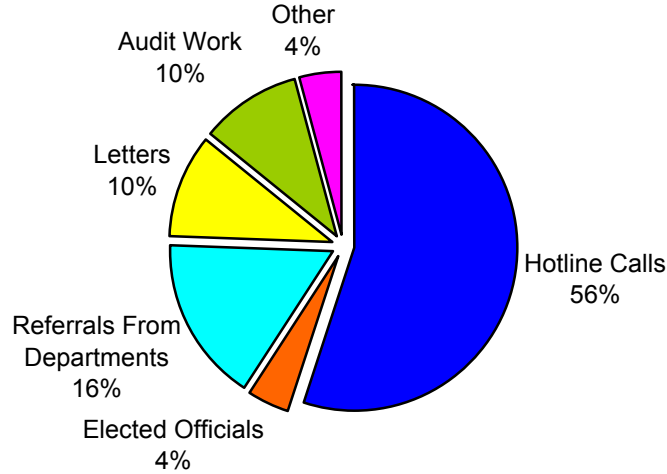
The Department of Audit received 49 contacts concerning allegations of fraud, waste or abuse in 2005. These contacts are categorized by source in **Table 1**.

**Table 1
2005 Allegations of Fraud, Waste or Abuse
Source of Contact**

Hotline Calls	27
Referrals from Departments	8
Letters	5
Audit Work	5
Elected Officials	2
Other	2
Total	49

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

Figure 1
2005 Allegations of Fraud, Waste or Abuse
Source of Contact



Cases Opened

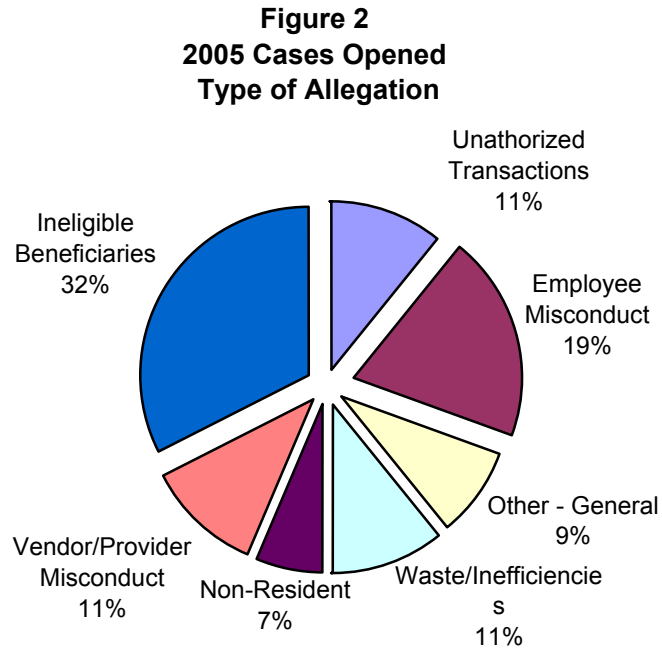
Cases opened concerned allegations of employee fraud or misconduct, waste or inefficiencies, and vendor misconduct, among others. When allegations involve issues beyond the jurisdiction of County government, they are referred to appropriate non-County agencies. All allegations of welfare fraud are referred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

Table 2 identifies, by complaint type, the total number of cases opened in 2005.

Table 2
2005 Cases Opened
Type of Allegation

Employee Misconduct	9
Vendor/Provider Misconduct	5
Waste/Inefficiencies	5
Other General	4
Counterfeit/Unauthorized Transactions	5
Non-Resident	3
Ineligible Beneficiaries	15
Total	46

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



Cases Closed

During 2005, 45 cases were closed for a variety of reasons. Of these, eight cases were opened in 2004, while the remaining 37 were opened during 2005. As of year-end 2005, nine cases remained active.

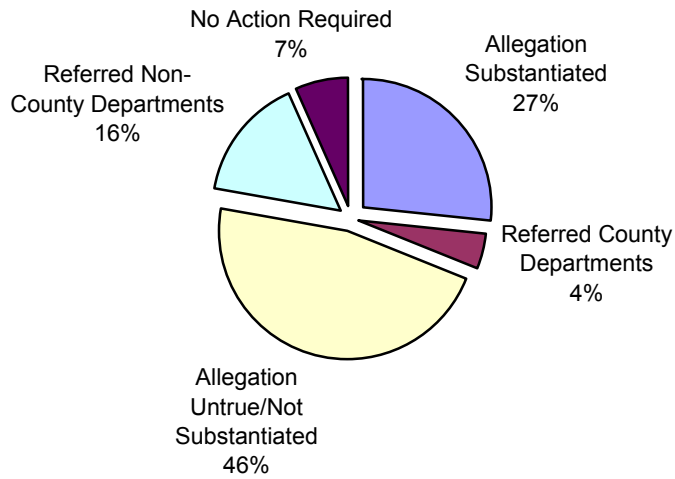
Table 3 categorizes the 45 cases closed in 2005. Twelve cases were closed because the allegations were determined to be either correct or substantially correct, and corrective measures were either implemented or in the process of being implemented. Twenty-one cases were determined to be either incorrect allegations or we were unable to substantiate the allegation. Of the remaining 12 cases closed in 2005, two were referred to a County department, seven were referred to a non-county agency and in three cases, no action was required.

**Table 3
2005 Cases Closed
Reason for Closing**

Allegation Substantiated	12
Allegation Untrue/Not Substantiated	21
Referred to County Department	2
No Action Required	3
Referred to Non-County Agency	7
Total	45

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

**Figure 3
2005 Cases Closed
Reason for Closing**



Case Highlights

Following are descriptions of some of the more interesting cases closed during 2005. The diverse nature of these cases demonstrates the value Countywide of maintaining the Audit Hotline.

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 Sheriff's Inmate Trust Account.

In January, February and March 2005, 22 unauthorized transactions totaling \$2,842 were posted to a County bank account. These transactions were immediately identified and bank officials were contacted to report the unauthorized transactions and obtain the appropriate reimbursement.

As we have noted in previous Hotline reports, 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 a he 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.

Theft of Cash

During the course of reconciling the Treasurer's Depository account, Bank Reconciliation staff noted that \$2,268 was posted to the County's books but not recorded on the bank statement as deposited. We initiated an investigation, and concluded that a former Treasurer employee had stolen the cash. We contacted the Sheriff's Office and, based on the evidence provided a warrant for the former Treasurer's employee was issued. At this time, the former employee's whereabouts is unknown.

Rent Assistance

We received a call to the Audit Hotline regarding a participant in the Milwaukee County Section 8 Housing Choice Voucher Program (Housing Program) who had not reported that another person was living at the residence. Based on the information provided, we were able to verify through the State of Wisconsin Department of Motor Vehicles that the person in question had registered a vehicle using the address of the program participant. In addition, we were able to verify that the person in question had also provided the same address in various court documents. Further, we were able to confirm that the

person in question was employed and had an income that was not disclosed to the Housing Program.

We provided the documentation to the Housing Program and based on this information an administrative hearing was scheduled. Our Forensic Auditor, a Certified Fraud Examiner, testified at the hearing. The hearing officer ruled that the participant had intentionally withheld information for the purpose of defrauding the program and terminated the participant from the Housing Program. Based on the monthly rent assistance provided and data obtained from the City of Milwaukee regarding the average length of time a program recipient receives rent assistance (from a similar City program), we estimate our work saved the Housing Program approximately \$46,000.

Assistance to District Attorney's Office

Last year's report described assistance we provided to the District Attorney's Office related to the former Chief Financial Officer (CFO) of a child care provider who embezzled \$750,000. We helped identify all the payments Milwaukee County made to the provider as well as all the payments from the State of Wisconsin Department of Workforce Development.

At the time of last year's report the former CFO had been arrested and was in custody in Houston Texas. Since then, a trial was held in 2005 and our Certified Fraud Examiner was subpoenaed to testify in the case. The former CFO was convicted and sentenced to 13 years in prison. In addition, he was ordered to pay \$676,367 in restitution.

Assistance to Other Jurisdictions Establishing Hotlines

During 2005, we were approached by several audit shops at both the state and local levels for advice in the establishment of hotline functions in their respective jurisdictions. In addition, the Department of Audit Hotline was featured in a presentation to the National Association of Local Government Auditors' Annual Conference held in Milwaukee in June 2005. Highlights of the presentation (updated for 2005 activity) included:

- **Milwaukee County Hotline Savings (1994—2005)**
Total Direct = \$2,698,100
Total Direct/Indirect = \$5,396,200

- **Intangible Benefits**

Someone's Watching: the Audit Hotline has a deterrent effect, for both internal and external sources of fraud, waste and abuse.

Someone Cares: a public message of 'zero tolerance' for fraud, waste and abuse is sent by allocating resources to a Hotline function.

Beneficial Contacts: interaction with the District Attorney's Office, police/sheriff departments, state and federal data sources, and even corporate security staff help forge alliances beneficial to the pursuit of eradicating fraud, waste and abuse from government.

- **Future Audit Project Leads**

Hotline tips often point to areas in need of review.

As the Milwaukee County Department of Audit proceeds with its 13th year of operating a Hotline, the benefits described above continue to flow and to play an important part in the department achieving its stated mission:

Department of Audit Mission Statement

Through independent, objective and timely analysis of information, the Milwaukee County Department of Audit assists both policy makers and program managers in providing high-quality services in a manner that is honest, efficient, effective and accountable to the citizens of Milwaukee County.