

**2006 Annual Report
Audit Hotline and Audit Activity
Related to Fraud, Waste and Abuse**

February 2007

Committee on Finance and Audit

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Department of Audit

Milwaukee County

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• Director of Audits

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February 12, 2007

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 2006.

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 2006 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 2006 totaled \$389,123.

You will note from the 2006 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 14th 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
Cynthia Archer, Fiscal & Budget Administrator, Department of Administrative Services
Steve Cady, Fiscal & Budget Analyst, County Board Staff
Delores 'Dee' Hervey, Chief Committee Clerk, County Board Staff

**2006 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 2006. Direct savings attributed to Audit Hotline and audit activity related to fraud, waste and abuse in 2006 totaled \$389,123.

Statistical Summary

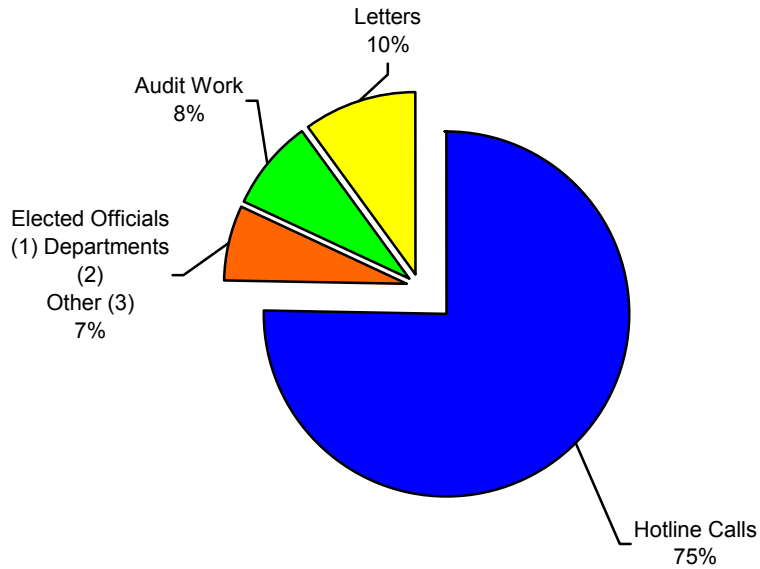
The Department of Audit received 89 contacts concerning allegations of fraud, waste or abuse in 2006. These contacts are categorized by source in **Table 1**.

**Table 1
2006 Allegations of Fraud, Waste or Abuse
Source of Contact**

Hotline Calls	67
Letters	9
Audit Work	7
Elected Officials	2
Referrals from Departments	1
Other	3
Total	89

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

Figure 1
2006 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 Wisconsin Works (W-2) fraud are referred to the County Department of Health and Human Services' Fraud Hotline to avoid duplication.

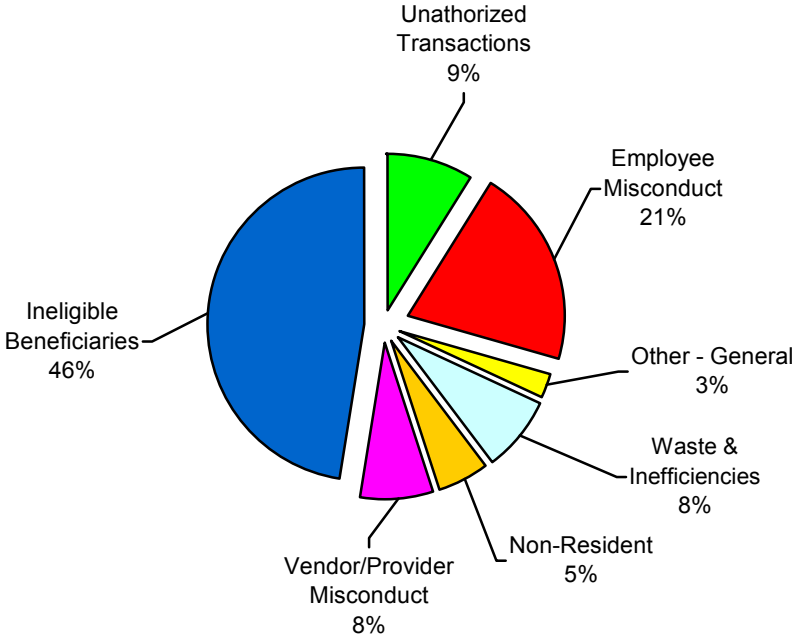
Table 2 identifies, by complaint type, the total number of cases opened in 2006.

Table 2
2006 Cases Opened
Type of Allegation

Employee Misconduct	16
Ineligible Beneficiaries	37
Counterfeit/Unauthorized Transactions	7
Vendor/Provider Misconduct	6
Waste/Inefficiencies	6
Non-Resident	4
Other General	2
Total	78

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

Figure 2
2006 Cases Opened
Type of Allegation



Cases Closed

During 2006, 76 cases were closed for a variety of reasons. Of these, eight cases were opened in 2005, while the remaining 68 were opened during 2006. As of year-end 2006, 11 cases remained active.

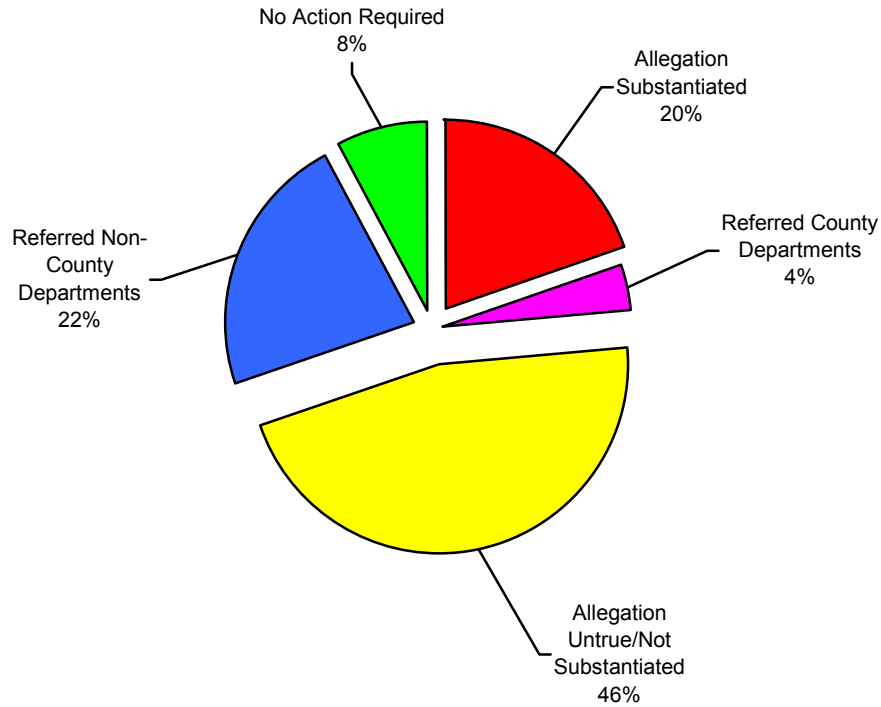
Table 3 categorizes the 76 cases closed in 2006. Fifteen cases were closed because the allegations were determined to be either correct or substantially correct, and corrective measures were either implemented or in the process of being implemented. Thirty-five cases were determined to be either incorrect allegations or we were unable to substantiate the allegation. Of the remaining 26 cases closed in 2006, three were referred to a County department, 17 were referred to a non-county agency and in six cases, no action was required.

Table 3
2006 Cases Closed
Reason for Closing

Allegation Untrue/Not Substantiated	35
Referred to Non-County Agency	17
Allegation Substantiated	15
No Action Required	6
Referred to County Department	3
Total	76

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

Figure 3
2006 Cases Closed
Reason for Closing



Case Highlights

Following are descriptions of some of the more interesting cases closed during 2006. The diverse nature of these cases demonstrates the value Countywide of maintaining the Audit Hotline.

Price Agreement for Refuse Liners

We received a call from a vendor indicating there had been no opportunity to bid on a Milwaukee County price agreement related to the purchase of refuse liners. We contacted the Purchasing Administrator and examined all documentation related to the price agreement, noting the following:

- The buyer did not solicit sealed bids prior to awarding the price agreement, as required by Chapter 32 of the Milwaukee County Ordinances. The buyer instead obtained price quotes from two vendors and awarded the price agreement to the vendor who had submitted the lowest price quotes.
- The price agreement was originally awarded for a one-year period, from October 25, 2004 to October 31, 2005. The agreement included prices for ten different refuse liner sizes.
- Shortly after the price agreement was awarded, a 9.5% price increase for all ten items was authorized effective February 1, 2005.
- In October 2005, the County authorized additional price increases of 38% effective October 1, 2005 and 8% effective October 15, 2006, and extended the price agreement for two years, through October 31, 2007.
- In January 2006, the price agreement was extended a second time, for an additional 26 months, through December 31, 2009.

The Purchasing Administrator agreed that the buyer had not followed the appropriate procedures in awarding the price agreement and in extending the effective dates of the price agreement. The Purchasing Administrator notified the vendor that the price agreement would be terminated and Milwaukee County would solicit competitive bids for the trash liners.

Based on the prices established with the new price agreement, Milwaukee County will save approximately \$130,000 each year for a three-year period (total \$389,123) when compared to the former price agreement.

Housekeeping Services Contract

In 2006, concern was expressed regarding the award of a contract to provide housekeeping services at the Marcia P. Coggs Human Services Center (MCHSC). The successful bidder for the contract is the spouse of a Procurement Division employee. We did not find any evidence of involvement by the Procurement Division employee in the award of the contract. However, we did identify problems with the contract award.

The Procurement Division received 11 bids to review. Procurement staff properly rejected two bids because representatives from two of the vendors did not attend a mandatory pre-bid meeting, as specified in the bid request. Procurement staff rated the

remaining nine bids based on totaling rates submitted for three distinct elements of the bid request:

- A per month rate to clean the four floors of the MCHSC.
- An hourly rate for weekend services.
- A per square-foot rate to clean large areas of carpet.

In addition, the Request For Bid also included a requirement that vendors submit “Three letters of reference from businesses similar in size (at least 100,000 sq. ft.)...”

Procurement Division staff used a template called a Bid Tabulation Sheet to total the three rates submitted by each vendor. Those completed Bid Tabulation Sheets, along with the bid documents submitted by vendors, were forwarded to the Department of Health and Human Services (DHHS), Management Services Division. According to Procurement staff, the final decision regarding the award of the contract, based on the best-qualified and responsive bid, was the responsibility of DHHS.

According to the DHHS Associate Director, the first two lowest bidders were rejected as non-responsive because the references they provided did not meet the 100,000 square-foot minimum requirement. The third lowest bidder provided no references at all. Rather than reject the third-lowest bidder as non-responsive, the Associate Director contacted the owner to obtain a reference. The owner provided as a reference the name and telephone number of a contact with the Milwaukee Area Technical College (MATC).

In an e-mail to the Procurement Division, the Associate Director stated that the MATC reference gave the owner “...outstanding marks” and indicated that the vendor cleaned over 100,000 square feet. Based on this information, the Associate Director requested that the Procurement Division award the contract to the vendor that had submitted the third-lowest bid. On September 25, 2006 the Procurement Division notified the various vendors that the contract had been awarded in accordance with the DHHS request.

Because the successful bidder had not submitted any references and we could not locate the firm in a telephone directory, we searched the State of Wisconsin, Department of Financial Institutions’ database of corporate records. According to the database, the

firm that was awarded the County cleaning contract had an effective registration date of November 17, 2006—nearly two months after the contract award.

We also contacted MATC to determine whether the firm had performed cleaning services for the institution. According to MATC management, all cleaning and housekeeping services are performed by in-house MATC staff. The MATC operations manager to whom we spoke had never heard of the firm in question, but was familiar with its owner. According to MATC records, the owner of the firm was employed by MATC from May 1994 until November 2006 as a Service Worker III and had no supervisory responsibilities. The individual identified by the owner as a reference, and to whom the Associate Director of DHHS spoke, was the owner's former supervisor at MATC.

Based on this information, the firm that was awarded the County cleaning contract did not meet the qualifications specified in the bid request.

We also noted that the methodology used by the Procurement Division staff to rate the nine bids was, in our opinion, flawed. Procurement staff added each rate submitted to calculate a total cost. However, the three rates, as described above, are not compatible. Procurement staff should have computed an annual cost for each service based on the vendors' respective rates, to arrive at a total annual cost of services figure for each bidder, thus placing the bids on comparable footing to determine the lowest bid.

Given the above circumstances, we recommended that the Procurement Division terminate the contract and either recalculate the lowest bid rankings based on the previously submitted responsive bids (those that met all bid requirements, including the references requirement), or re-bid the contract.

Department on Aging Human Services Worker

The Director of the Milwaukee County Department on Aging (MCDA), contacted the Department of Audit regarding an agency utilized by MCDA to provide supportive home care services to clients of its Alzheimer's Family and Caregivers Support Program. Specifically, MCDA expressed concerns that there may have been instances in which purchased services were not delivered by the agency. These concerns came to light

only after a human services worker (HSW), who coordinated services from the agency for the clients, transferred to the Milwaukee County Department of Health and Human Services. According to MCDA, the HSW in question was the only HSW to use the agency.

Through interviews with MCDA Resource Center management, we learned that MCDA staff had already taken steps to obtain documentation from the agency substantiating the agency's 2005 billings. However, according to Resource Center management, their efforts were unsuccessful because the agency did not respond to a departmental request sent by registered mail, and the agency's telephone number had been disconnected.

We confirmed that the agency's telephone number was disconnected and we were informed that while the agency continues to make payments on the remaining terms of its leased office space, it had ostensibly vacated the premises.

According to Milwaukee County records, the agency was paid \$27,325 from March 2004 through October 2005 for services provided to nine clients over that period. However, we were unable to determine whether or not services were provided.

During the course of our investigation we were able to determine the following:

- The HSW's son owned the agency.
- The HSW's sister was employed as a supportive home care worker by the agency.
- The HSW had personally loaned \$4,000 to \$5,000 to the agency at the time the agency was providing services to clients that the HSW had referred to the agency.
- During the time period March 2004 through October 2005, each of the nine MCDA clients referred to the agency were referred by the HSW.
- The HSW admitted setting up the agency on the SCRIPTS system that is used to generate payments to service providers.
- The HSW had signed a form acknowledging that the HSW had received the Department on Aging work rules that prohibit actual or potential conflicts of interest.

We reported our findings to the Department on Aging and the Department of Health and Human Services. Ultimately, the HSW resigned from Milwaukee County employment.

Update of AODA Service Provider

As part of our 1998 Annual Hotline Report, we highlighted a case in which a former AODA service provider for the Department of Health and Human Services defrauded Milwaukee County of \$87,753. The owner of the company fled the country to Nigeria. However, in 2006, the owner contacted the Milwaukee County District Attorney's Office and agreed to stand trial in order to return to the United States. Ultimately, the owner pleaded guilty to the charges. The owner has paid \$30,000 in restitution and has been ordered by the court to pay Milwaukee County the balance of \$57, 753.

Update on Theft of Cash

In last year's report, we described our involvement in identifying the theft of \$2,268 from the Treasurer's Office in 2005. To recap, 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 identified documentation indicating that a former County employee had stolen the cash. We contacted the Sheriff's Office and, based on the evidence provided, a warrant for the former employee was issued. However, the former employee could not be located.

In 2006, the FBI was interviewing the former employee regarding another matter and, noting an outstanding warrant related to the County theft, contacted the Sheriff's Office. The suspect was arrested, but ultimately jumped bail before the case was resolved.

Later that year, the Department of Audit was able to identify a current employer of the former County employee, and provided the information to the Sheriff's Office. The suspect was arrested and is currently in custody awaiting a hearing. According to court scheduling documents, a guilty plea is anticipated.

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.

During the course of the year, five unauthorized transactions totaling \$536 was posted to various Milwaukee County bank accounts. These transactions were immediately identified and bank officials were contacted to report the unauthorized transactions and obtain the appropriate reimbursement. This level of unauthorized transactions represents a substantial reduction in this type of activity compared to prior years. We believe the reduction is due to our constant vigilance over Milwaukee County's bank accounts, as well as implementation of our previous recommendations to place restrictive controls on various accounts to combat unauthorized transactions.

As we have noted in previous Hotline reports, theft by unauthorized electronic fund transfer and counterfeit checks is a nationwide problem. Easy access to sophisticated computer graphics printing capabilities, as well as increasing reliance on electronic fund transfers, creates an environment of greater risk of 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.

Ongoing Hotline Benefits

We frequently have been approached by audit shops at both the state and local levels for advice in the establishment of hotline functions in their respective jurisdictions. We provide the following information regarding the ongoing benefits of the Audit Hotline to Milwaukee County citizens. This information has been updated to reflect 2006 activity

- **Milwaukee County Hotline Savings (1994—2006)**
 - Total Direct = \$3,087,425
 - Total Direct/Indirect = \$6,174,850
- **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 14th year of operating a Hotline, the benefits described above continue 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.

Historic Hotline Data

Tables 4 through **7** present annual Hotline statistics from its inception in 1994 through 2006.

Table 4
Milwaukee County
Department of Audit Fraud Hotline
Savings Identified 1994--2006

1994	\$169,427
1995	\$182,920
1996	\$0
1997	\$17,044
1998	\$182,512
1999	\$94,487
2000	\$282,627
2001	\$238,152
2002	\$123,962
2003	\$2,504
2004	\$1,249,032
2005	\$155,635
2006	<u>\$389,123</u>
Direct Savings	\$3,087,425
Estimated Total Savings	\$6,174,850

Note: Estimated total savings based on industry standard of \$1 indirect savings for every \$1 direct savings

**Table 5
Milwaukee County Fraud Hotline Statistics
1994 - 2006 Sources of Contacts**

<u>Year</u>	<u>Calls</u>	<u>Letters</u>	<u>Referred from Departments</u>	<u>Leads from Audits</u>	<u>Elected Officials</u>	<u>Other</u>	<u>Total</u>
1994	420	21	0	0	0	10	451
1995	139	7	0	0	0	3	149
1996	54	4	0	0	0	0	58
1997	28	5	2	0	3	5	43
1998	26	4	5	0	1	1	37
1999	17	0	3	0	2	1	23
2000	40	14	11	7	0	4	76
2001	27	8	10	9	0	1	55
2002	21	9	4	8	12	3	57
2003	29	5	5	7	3	2	51
2004	18	9	5	3	1	4	40
2005	27	5	8	5	2	2	49
2006	<u>67</u>	<u>9</u>	<u>1</u>	<u>7</u>	<u>2</u>	<u>3</u>	<u>89</u>
Total	913	100	54	46	26	39	1,178
% of Total	77.5%	8.5%	4.6%	3.9%	2.2%	3.3%	100.0%
Average	70.2	7.7	4.2	3.5	2.0	3.0	90.6
1996--2006 Total	354	72	54	46	26	26	578
1996--2006 Average	32.2	6.5	4.9	4.2	2.4	2.4	52.5
1996 -- 2006 Average %	61.2%	12.5%	9.3%	8.0%	4.5%	4.5%	100.0%

Note: Beginning in 1995, all allegations of welfare fraud were referred to the Department of Health and Human Services to avoid duplication. Consequently, separate statistical averages are maintained for pre-and post-1995 data.

**Table 6
Milwaukee County Fraud Hotline Statistics
1994 - 2006 Types of Allegations**

<u>Year</u>	<u>Employee Misconduct</u>	<u>Ineligible Recipients</u>	<u>Waste or Inefficiencies</u>	<u>Vendor or Provider Misconduct</u>	<u>Counterfeit or Unauthorized Transactions</u>	<u>Non-County Issues</u>	<u>Other</u>	<u>Total</u>
1994	59	213	22	12	0	38	80	424
1995	17	71	9	3	0	15	26	141
1996	9	22	5	2	0	5	8	51
1997	11	4	8	7	0	6	3	39
1998	9	3	9	6	0	6	2	35
1999	8	2	4	5	0	3	1	23
2000	34	2	15	9	6	6	2	74
2001	17	1	8	10	0	0	13	49
2002	14	9	9	6	7	0	2	47
2003	10	13	7	4	7	0	7	48
2004	13	12	6	4	2	1	0	38
2005	12	15	5	5	5	0	4	46
2006	<u>20</u>	<u>37</u>	<u>6</u>	<u>6</u>	<u>7</u>	<u>0</u>	<u>2</u>	<u>78</u>
Total	233	404	113	79	34	80	150	1,093
% of Total	21.3%	37.0%	10.3%	7.2%	3.1%	7.3%	13.7%	100.0%
Average	17.9	31.1	8.7	6.1	2.6	6.2	11.5	84.1
1996--2006 Total	157	120	82	64	34	27	44	528
1996--2006 Average	14.3	10.9	7.5	5.8	3.1	2.5	4.0	48.0
1996 -- 2006 Average %	29.7%	22.7%	15.5%	12.1%	6.4%	5.1%	8.3%	100.0%

Note: Beginning in 1995, all allegations of welfare fraud were referred to the Department of Health and Human Services to avoid duplication. Consequently, separate statistical averages are maintained for pre-and post-1995 data. 2005 and 2006 totals for Employee Misconduct includes 3 and 4 cases, respectively, classified in the Annual Reports as 'Non-Resident.'

**Table 7
Milwaukee County Fraud Hotline Statistics
1994 - 2006 Reasons for Case Closings**

<u>Year</u>	<u>Allegation Substantiated</u>	<u>Allegation Untrue Unsubstantiated</u>	<u>Referred to Non-County Agency</u>	<u>Insufficient Information</u>	<u>Referred to County Department</u>	<u>No Further Action Required</u>	<u>Other</u>	<u>Total</u>
1994	74	84	31	17	29	0	30	265
1995	45	105	28	11	87	10	8	294
1996	5	6	6	2	27	3	4	53
1997	12	8	3	7	2	1	0	33
1998	13	14	0	1	2	2	0	32
1999	13	9	1	4	0	3	0	30
2000	24	23	2	4	0	4	0	57
2001	18	12	0	1	8	7	0	46
2002	16	26	1	6	4	7	0	60
2003	10	19	5	3	6	6	0	49
2004	16	10	4	2	1	1	0	34
2005	12	21	7	0	2	3	0	45
2006	15	35	17	0	3	6	0	76
Total	273	372	105	58	171	53	42	1,074
% of Total	25.4%	34.6%	9.8%	5.4%	15.9%	4.9%	3.9%	100.0%
Average	21.0	28.6	8.1	4.5	13.2	4.1	3.2	82.6
1996--2006 Total	154	183	46	30	55	43	4	515
1996--2006 Average	14.0	16.6	4.2	2.7	5.0	3.9	0.4	46.8
1996 --2006 Average %	29.9%	35.5%	8.9%	5.8%	10.7%	8.3%	0.8%	100.0%

Note: Beginning in 1995, all allegations of welfare fraud were referred to the Department of Health and Human Services to avoid duplication. Consequently, separate statistical averages are maintained for pre-and post-1995 data.



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 1-800-362-3002
Medicare Fraud 1-800-447-8477**