

**2007 Annual Report
Audit Hotline and Audit Activity
Related to Fraud, Waste and Abuse**

April 2008

Committee on Finance and Audit

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Department of Audit

Milwaukee County

Jerome J. Heer

• Director of Audits

Douglas C. Jenkins

• Deputy Director of Audits

April 29, 2008

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 2007.

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 2007 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 2007 totaled \$171,417.

You will note from the 2007 case highlights that the nature of alleged improprieties presented to the Department of Audit for investigation has, as in recent years, remained complex. Of particular note is the success of our proactive procedures in reducing the number of unauthorized electronic banking transactions perpetrated on County accounts. As the Department of Audit begins its 15th 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
Cynthia Archer, Acting Director, Department of Administrative Services
Steve Cady, Fiscal and Budget Analyst, County Board Staff
Delores Hervey, Chief Committee Clerk, County Board Staff

**2007 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 2007. Direct savings attributed to Audit Hotline and audit activity related to fraud, waste and abuse in 2007 totaled \$171,417.

Statistical Summary

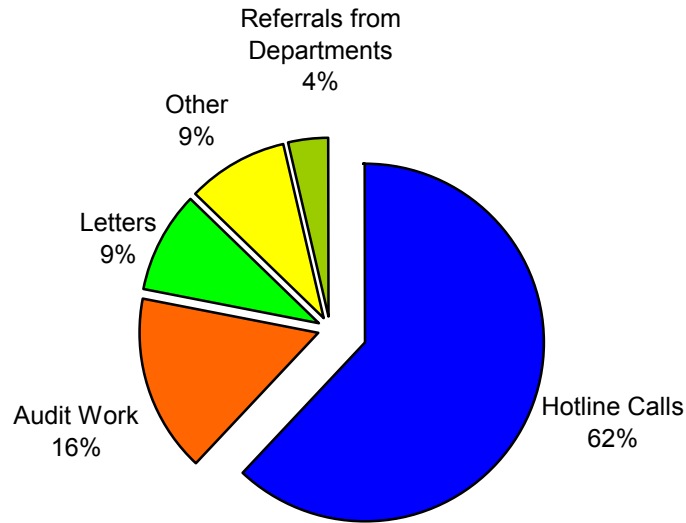
The Department of Audit received 55 contacts concerning allegations of fraud, waste or abuse in 2007. These contacts are categorized by source in **Table 1**.

**Table 1
2007 Allegations of Fraud, Waste or Abuse
Source of Contact**

Hotline Calls	34
Audit Work	9
Letters	5
Other	5
Referrals from Departments	2
Total	55

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

**2007 Allegations of Fraud, Waste or Abuse
Source of Contact**



Cases Opened

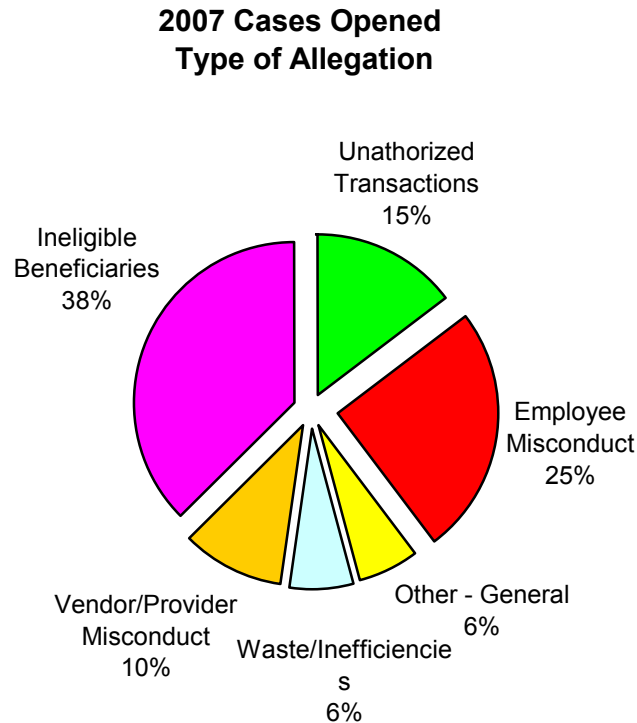
Cases opened concerned allegations of individuals receiving benefits to which they were not entitled, employee fraud or misconduct, and counterfeit or unauthorized transactions, among others. When allegations involve issues beyond the jurisdiction of County government, they are referred to appropriate 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, 48 cases opened in 2007.

**Table 2
2007 Cases Opened
Type of Allegation**

Employee Misconduct	12
Ineligible Beneficiaries	18
Counterfeit/Unauthorized Transactions	7
Vendor/Provider Misconduct	5
Waste/Inefficiencies	3
Other General	3
Total	48

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



Cases Closed

During 2007, 53 cases were closed for a variety of reasons. Of these, ten cases were opened in 2006, while the remaining 43 were opened during 2007. As of year-end 2007, five cases remained active.

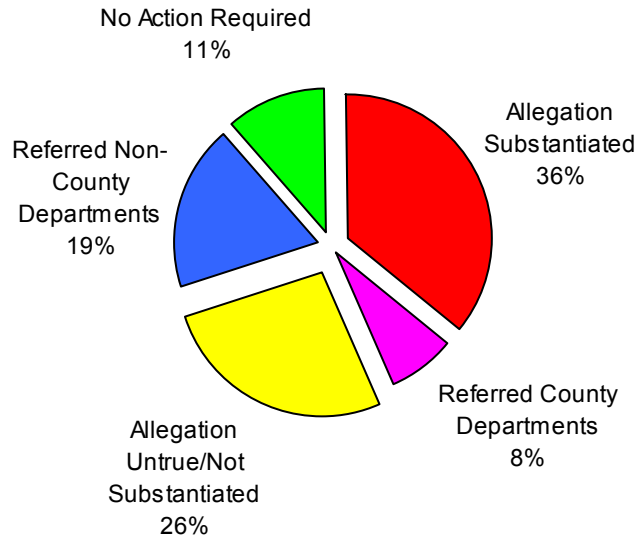
Table 3 categorizes the 53 cases closed in 2007. Nineteen cases were closed because the allegations were determined to be either correct or substantially correct, and corrective measures were either implemented or in the process of being implemented. Fourteen cases were determined to be either incorrect allegations or we were unable to substantiate the allegation. Of the remaining 20 cases closed in 2007, ten were referred to a non-County agency, there was no action required in six cases, and four cases were referred to a County department for additional review and action.

**Table 3
2007 Cases Closed
Reason for Closing**

Allegation Substantiated	19
Allegation Untrue/Not Substantiated	14
Referred to Non-County Agency	10
No Action Required	6
Referred to County Department	4
Total	53

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

**2007 Cases Closed
Reason for Closing**



Case Highlights

Following are descriptions of some of the more interesting cases closed during 2007. The diverse nature of these cases demonstrates the value Countywide of maintaining the Audit Hotline.

Milwaukee Public Museum

In 2005, we reported that the Milwaukee Public Museum’s (MPM) former Chief Financial Officer (CFO) withdrew approximately \$7.2 million from the MPM Endowment Fund without proper authorization from the MPM Endowment Committee. In addition, the

former CFO submitted inaccurate and misleading fiscal reports to the Endowment Committee. These activities were reported to the Milwaukee County District Attorney and in October 2006 the former CFO was charged with two felonies.

Eventually the former CFO pleaded guilty to a reduced misdemeanor charge. As part of the plea agreement the former CFO agreed to donate \$45,000 to the MPM Endowment Fund.

Based on the former CFO's conviction, and increased taxpayer support for MPM in the aftermath of the MPM fiscal crisis, Milwaukee County's Corporation Counsel was able to negotiate a settlement of \$750,000 with MPM's insurance carrier.

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 at the Department of Audit 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 interviewed 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 eventually pleaded guilty to misdemeanor theft charge. The former employee has repaid Milwaukee County \$2,000 with a balance of \$268 remaining to be paid.

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, three counterfeit checks totaling \$8,600 were posted to Milwaukee County's Clerk of Circuit Court bank accounts. These transactions were immediately identified and bank officials were contacted to report the unauthorized transactions and obtain the appropriate reimbursements. 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.

Rent Assistance

In 2007, the Oak Creek Police Department (OCPD) contacted us regarding one of Milwaukee County's Section 8 Housing Choice Program (Rent Assistance) clients. The OCPD suspected that the client had altered and cashed utility subsidy checks issued by Milwaukee County. Our assistance was sought in compiling the evidence necessary to prove the case.

In response to the request, we identified 19 checks that were issued on behalf of the client by Milwaukee County. We obtained copies of each check and identified six checks totaling \$643 that the client altered by removing WE Energies from the payee line. In addition, we concluded that nine checks totaling \$644, although not altered by the client, were cashed by the client and not used to pay the client's utility bills.

We issued a memo stating our conclusions to the Oak Creek police department and provided copies of the supporting documentation.

According to the criminal complaint that was ultimately issued, the Rent Assistance client was also involved in a scheme with other individuals to defraud multiple local banks and check cashing stores. Various fraudulent bank accounts were opened with small amounts of cash or worthless checks. Once the accounts were open, fake bank statements showing significant balances were created and eventually loans were obtained.

The Rent Assistance client pleaded guilty to the charges and was sentenced to 75 months in the Wisconsin State Prison System as well as being ordered to pay restitution of \$74,848. The client was also removed from the Rent Assistance Program, which was paying \$608 per month on the client's behalf.

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 Fraud Hotline to Milwaukee County citizens. This information has been updated to reflect 2007 activity

- **Milwaukee County Hotline Savings (1994—2006)**
 - Total Direct = \$3,258,842
 - Total Direct/Indirect = \$6,517,684

- **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 15th 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 2007.

Table 4
Milwaukee County
Department of Audit Fraud Hotline
Savings Identified 1994--2007

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	\$389,123
2007	<u>\$171,417</u>
Direct Savings	\$3,258,842
Estimated Total Savings	\$6,517,684

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--2007
Sources of Contacts**

	<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	67	9	1	7	2	3	89
2007	34	5	2	9	0	5	55
Total	947	105	56	55	26	44	1,233
% of Total	76.8%	8.5%	4.5%	4.5%	2.1%	3.6%	100.0%
Average	67.6	7.5	4.0	3.9	1.9	3.1	88.1
1996--2007 Total	388	77	56	55	26	31	633
1996--2007 Average	32.3	6.4	4.7	4.6	2.2	2.6	52.8
1996--2007 Average %	61.3%	12.2%	8.8%	8.7%	4.1%	4.9%	100.0%

Note: During 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 post-1995 data.

Table 6
Milwaukee County Fraud Hotline Statistics 1994--2007
Types of Allegations

	<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	20	37	6	6	7	0	2	78
2007	12	18	3	5	7	1	2	48
Total	245	422	116	84	41	81	152	1,141
% of Total	21.5%	37.0%	10.2%	7.4%	3.6%	7.1%	13.3%	100.0%
Average	17.5	30.1	8.3	6.0	2.9	5.8	10.9	81.5
1996--2007 Total	157	120	82	64	34	27	44	528
1996--2007 Average	13.1	10.0	6.8	5.3	2.8	2.3	3.7	44.0
1996--2007 Average %	29.7%	22.7%	15.5%	12.1%	6.4%	5.1%	8.3%	100.0%

Note: During 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 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--2007
Reasons for Case Closings

	<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
2007	19	17	10	3	4	0	0	53
Total	292	389	115	61	175	53	42	1,127
% of Total	25.9%	34.5%	10.2%	5.4%	15.5%	4.7%	3.7%	100.0%
Average	20.9	27.8	8.2	4.4	12.5	3.8	3.0	80.5
1996--2007 Total	154	183	46	30	55	43	4	515
1996--2007 Average	12.8	15.3	3.8	2.5	4.6	3.6	0.3	42.9
1996--2007 Average %	29.9%	35.5%	8.9%	5.8%	10.7%	8.3%	0.8%	100.0%

Note: During 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 post-1995 data.