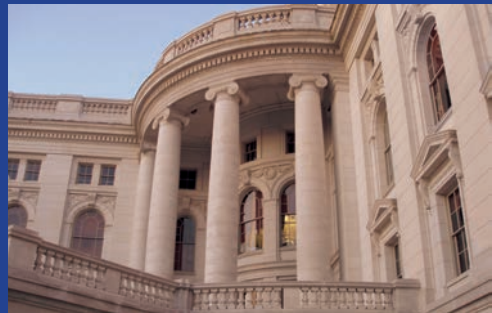


**Report 12-4
February 2012**

Fraud, Waste, and Mismanagement Hotline 2011 Summary

STATE OF WISCONSIN



Legislative Audit Bureau ■

Fraud, Waste, and Mismanagement Hotline 2011 Summary

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We are strictly nonpartisan as required by Wisconsin Statutes. Our audits, evaluations, and reviews assist the Legislature in maintaining effective oversight of state operations.

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Joe Chrisman
State Auditor

February 15, 2012

Senator Robert Cowles and
Representative Samantha Kerkman, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Cowles and Representative Kerkman:

The Legislative Audit Bureau has operated its Fraud, Waste, and Mismanagement Hotline since April 2008. The hotline was established by 2007 Wisconsin Act 126 so that the public, state employees, and contractors could easily and confidentially report suspected fraud, waste, mismanagement, and other improper activities within state government.

Hotline reports are received primarily through a toll-free telephone number (1-877-FRAUD-17), but also by mail and a secure web-based form. We review each report to determine whether it can be best addressed by staff in state agencies or an independent review by Audit Bureau staff. Statutes require us to protect the identity of any individual making a report and to track all reported concerns.

From April 2008 through December 2011, we received 389 reports. In 2011, we received 79 reports, of which 58 were specific to state programs. During 2011, 40 concerns reported in 2011 or prior years were resolved. This summary highlights hotline activities in 2011 and describes outcomes and findings related to selected reports that illustrate the variety of issues addressed through the hotline.

We appreciate the courtesy and cooperation of the various state agencies with whom we worked to resolve hotline reports or address common types of allegations.

Respectfully submitted,

Joe Chrisman
State Auditor

JC/SH/ss

Fraud, Waste, and Mismanagement Hotline

2007 Wisconsin Act 126 established the Legislative Audit Bureau's Fraud, Waste, and Mismanagement Hotline to allow the public, state employees, and contractors to report suspected fraud, waste, mismanagement, and other improper activities within state government. It does not duplicate or replace other government hotlines or complaint resources. The hotline has been in operation since April 2008 and is managed by a Certified Fraud Examiner.

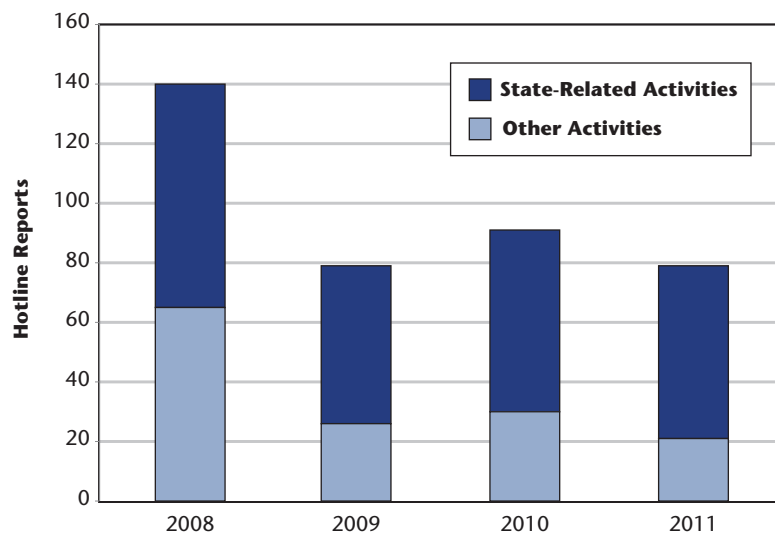
The hotline receives calls through a toll-free telephone number (1-877-FRAUD-17) that is staffed during normal business hours. Voice mail is always available and concerns and allegations can also be reported by mail or by using a secure web-based form (<http://www.legis.wisconsin.gov/LAB/>).

Individuals making hotline reports may remain anonymous, although they are encouraged to leave their names and contact information for follow-up purposes. The Audit Bureau's ability to resolve reported concerns depends on the extent and specificity of the information provided and whether additional information can be obtained when necessary. Statutes require the Audit Bureau to protect the identity of individuals making reports, even when other information related to their reports is made public.

From April 2008 through December 2011, nearly two-thirds of the 389 reports to the hotline involved state-related activities, which are the primary focus of the hotline. As illustrated in Figure 1, the number of reports to the hotline was consistent over the past three years.

Figure 1

Reports to the Fraud, Waste, and Mismanagement Hotline
April 2008 through December 2011



Review Process

We conduct an initial review of each reported concern or allegation to assess the adequacy of information provided and to determine whether it involves fraud, waste, or mismanagement in state agencies or programs and consider whether it merits further review. In some cases, we are unable to pursue reports because we do not receive sufficient information. In other instances, we make referrals or provide callers with alternative contacts for reporting their concerns. For example, individuals alleging potential criminal activity that does not involve state government are referred to their local district attorney's office, while those with questions about their own eligibility for state programs or with concerns involving private businesses are referred to the appropriate agency hotlines and customer service centers.

If we determine that a reported concern or allegation warrants further review, we make general inquiries of relevant state agency staff, perform a limited-scope review of the program or issues identified, address the report as part of an audit already in progress, or initiate a new audit. We report the findings of completed hotline work to the agency and, when warranted, to the Joint Legislative Audit Committee.

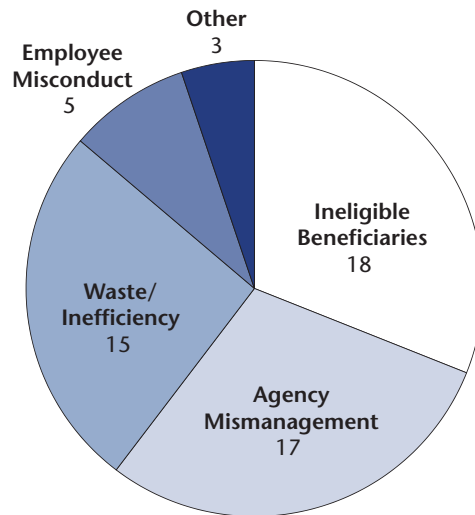
2011 Hotline Activity

Of the 79 hotline reports we received in 2011, 58 were state-related reports. The remaining 21 did not relate to the hotline's purpose as set forth in 2007 Wisconsin Act 126 because they involved federal or local issues or were general requests for information. For example, 5 of the 21 reports involved allegations of individuals inappropriately receiving Social Security disability benefit payments. Those reports that included sufficient information were referred to staff of that federal program.

As shown in Figure 2, 18 of the 58 state-related reports we received in 2011 involved allegations that individuals had either submitted false information to qualify for a state public assistance program or had failed to report information that would limit their eligibility; these reports are shown in Figure 2 as ineligible beneficiaries. An additional 17 reports alleged mismanagement by state agencies, including inadequate control over spending, lack of oversight of staff, or noncompliance with statutory requirements. Another 15 reports alleged general waste and inefficiency in state programs. Finally, we received 5 reports alleging abuses or misconduct by state employees, including allegations that individuals were inappropriately benefiting from their state positions.

Figure 2

**Reports of Fraud, Waste, and Mismanagement
in State Government¹
2011**

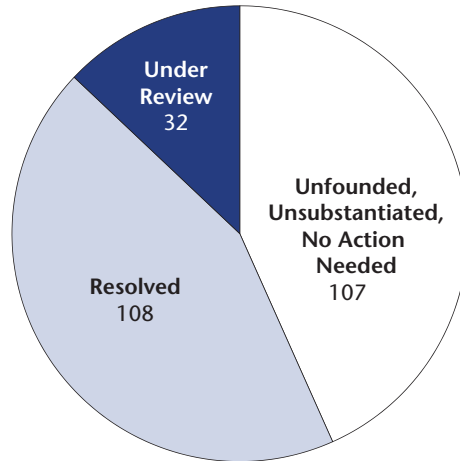


¹ A total of 58 state-related reports were received in 2011.

As shown in Figure 3, 108 of the 247 state-related hotline reports we have received since April 2008 were resolved by the end of 2011, including 40 resolved during 2011. Some reports were resolved with referrals to state agencies while others were resolved by Audit Bureau staff who assisted callers in addressing their issues or communicated caller concerns to agency staff for further action. Another 32 reports remained under review, while 107 concerns or allegations were unfounded, could not be substantiated with available information, or required no further action.

Figure 3

**Status of Reports of Fraud, Waste, and Mismanagement
in State Government¹**
April 2008 through December 2011



¹ A total of 247 state-related reports were received through 2011.

Selected Highlights of Hotline Activities

Reports to the hotline involve a variety of issues. Some reports involve narrow topics, such as an individual employee's use of a state vehicle for personal reasons, while other allegations require a broader review, such as assessing the effectiveness of a state program. Although the concerns or allegations may have been reported in prior years, selected highlights of outcomes and findings related to the reports that were resolved in 2011 follow.

Department of Transportation Asphalt Warranty Program

In April 2010, the hotline received a report that the Department of Transportation (DOT) was not adequately overseeing warranties it had entered into for construction of asphalt state highways. Concerns were also raised about the quality of warranted asphalt highways. We initiated a limited-scope review in response to these allegations and issued a letter report in March 2011.

DOT began using warranties for construction of asphalt highways in 1995 to encourage construction innovation. Nationwide, 23 other states, including 6 midwestern states, used warranties on at least some highway projects they manage. Under warranty programs, construction contractors are subject to less oversight in exchange for the responsibility to repair roads that deteriorate more quickly during the warranty period, which is typically five years. The State's use of warranties in asphalt highway construction increased over the last decade from 7 projects in 2000 to 29 projects in 2009.

DOT often inspected pavements during the warranty period, but we found that results were not often reviewed until the warranty had expired. We also found inconsistencies in DOT's enforcement of pavement warranties and a lack of documentation to support some project-related decisions made by its five regional offices. In addition, DOT did not consistently conduct required density testing of pavements for the 41 projects we reviewed. The report included recommendations that DOT improve its management of the asphalt warranty program and that its engineers follow established policies to test the density of asphalt pavement.

In addition, the report included a review of studies of the cost-effectiveness and quality of roads constructed under warranty programs in surrounding states. Because DOT did not maintain project-specific information on all types of costs, we recommended that DOT report to the Joint Legislative Audit Committee in January 2012 on the cost-effectiveness of asphalt pavement projects constructed with warranties. DOT's report identified similar costs and quality among the 38 warranted and 37 nonwarranted projects it reviewed and that it anticipated continuing its warranty program. DOT also reported hiring a contracted position to manage its warranty information and coordinate repair work for warranty projects.

Technical College Workforce Advancement Training Program

In July 2009, the hotline received a report that a technical college district was using Workforce Advancement Training (WAT) program funds for purposes other than those intended. In addition, concerns were raised about whether controls over the use of program funds were adequate. We reviewed the WAT program, which was created in 2005 Wisconsin Act 25 to help address the training needs of Wisconsin businesses and to enhance the skills of the workforce. From July 2005 through June 2011, the Legislature appropriated \$14.9 million in general purpose revenue for the short-term, customized training services provided under the WAT program, which is administered by the Wisconsin Technical College System (WTCS).

In our February 2011 letter report, we determined that two technical college districts had received reimbursement for costs not actually incurred and that individual technical college districts had varied widely in their participation in the program and had difficulty in using funding appropriated. We made recommendations to WTCS to improve administration of the program.

Contracted Staffing for Administrative Services in Medical Assistance

In October 2010, the hotline received a report regarding contract amendments the Department of Health Services (DHS) entered into with a large Medical Assistance vendor. This report alleged that contracted staff were performing responsibilities that had typically been completed by state employees.

We incorporated our review of these allegations into a comprehensive audit of the Medical Assistance program that was published as report 11-15 in December 2011. We found that DHS increased staffing under its largest administrative services contract from 598.5 full-time equivalent (FTE) positions in December 2008 to 1,127.5 FTE positions in June 2011. The

majority of the additional contracted staff assisted DHS in enrolling low-income adults without dependent children in public assistance programs and implementing cost-savings initiatives. In addition, DHS also increased contracted staff to supplement its own staff, including requesting contracted staff to perform ongoing administrative responsibilities that typically have been performed by state employees, in part, as a result of a hiring freeze in place from January 2008 through December 2010 and the requirement for state employees to take 16 days of unpaid leaving during the 2009-11 biennium.

We found that DHS's contract with the large Medical Assistance vendor is broad, and DHS amended this contract 73 times from December 2008 to June 2011. These amendments were not reviewed by procurement staff to consider whether the services should be competitively bid and DHS did not conduct cost-benefit analyses to identify whether use of state employees could result in lower costs. The audit included recommendations for DHS to formalize plans to review contract amendments prior to authorization and to consider whether a competitive bidding process or use of state employees may result in lower costs. In addition, we recommended that DHS review all existing contracted services to identify whether cost savings may be achieved by using state employees rather than contracted staff for some functions and report to the Joint Legislative Audit Committee by July 2012.

Public Assistance Fraud

During 2011, the hotline received 18 reports alleging that a recipient of a public assistance program was receiving benefits fraudulently. In comparison, we received 17 similar reports in all prior years combined. To address reports of recipient fraud, we work with the relevant agencies responsible for providing these services.

Some agencies have dedicated hotlines for accepting public recipient fraud tips, such as the Unemployment Insurance program administered by the Department of Workforce Development. However, until recently, public tips alleging recipient fraud in the Medical Assistance and FoodShare programs were directed to county staff, who administer these programs. 2011 Wisconsin Act 32, the 2011-13 Biennial Budget Act, directed DHS to centralize certain recipient fraud responsibilities for the Medical Assistance and FoodShare programs. As part of these efforts, DHS established a hotline in December 2011 for the public to report fraud in these programs.

Most reports of public assistance recipient fraud to our hotline in 2011 involved the Medical Assistance and FoodShare programs. Through December 2011, 4 of 11 allegations we referred to DHS were substantiated. In all but one instance, benefits were terminated or reduced as a result of these investigations and two resulted in DHS assessing overpayments of \$11,500 for the Medical Assistance and FoodShare benefits provided to these recipients. Generally, reports of recipients inappropriately receiving public assistance benefits involved allegations that the recipient had not reported all household members, income, or assets, or that the recipient had access to health insurance from another source. We continue to work with relevant agencies as they investigate the remaining referrals we made based on reports to the hotline.

Other reports to our hotline have raised concerns about whether public assistance benefits are provided to individuals who do not reside in Wisconsin. This was the subject of two recent reports we released, including an analysis completed for the audit of the Medical Assistance program, which was included in report 11-15 released in December 2011, and an analysis completed of FoodShare benefits spent outside of Wisconsin, which was included in report 12-3 released in February 2012.

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