



**Fraud, Waste and Abuse
Hotline Report
for the Year Ending
December 31, 2018**

MARTIN MATSON
City Comptroller

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Audit Manager

City of Milwaukee, Wisconsin

February 2019

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March 4, 2019

Honorable Tom Barrett, Mayor
The Members of the Common Council
City of Milwaukee
Milwaukee, WI 53202

Dear Mayor and Council Members:

Section 350-247 of the Code of Ordinances authorizes Internal Audit to manage the City of Milwaukee Fraud Hotline (Hotline) and requires the release of an annual report of Hotline activity each calendar year. The enclosed report summarizes Hotline operations for the year ending December 31, 2018.

Internal Audit has operated the City of Milwaukee Fraud, Waste, and Abuse Hotline since its inception in 2004. The Hotline continues to benefit the citizens of Milwaukee and City employees, by providing a confidential means to report potential fraud, waste, and abuse within City government. Hotline follow-up procedures have been developed to ensure a timely and appropriate response to complaints.

For the 2018 calendar year, 104 complaints were received by the Hotline. The most common types of complaints received were service requests; personnel, conduct, and human resources; non-City issues; and cases of potential fraud, waste, or abuse. Typically, complaints were received via secure voicemail, email, or electronically through the City's Fraud Hotline webpage. In 2019, Internal Audit will continue its efforts to educate City of Milwaukee residents and employees about the Fraud Hotline through the use of informative brochures, website content, and the City's Fraud Hotline video presentation.

Appreciation is expressed for the cooperation extended to Internal Audit's Hotline personnel by City Management.

Sincerely,

Adam Figon, MBA, CRMA
Audit Manager

AF:rk/bd



Introduction

This annual report of the City of Milwaukee's Fraud, Waste, and Abuse Hotline is for the Hotline activity occurring from January 1, 2018 through December 31, 2018. The scope of the City's Fraud Hotline activity applies to complaints related to the City of Milwaukee's legal assets and resources only. Complaints received beyond this scope are referred to the appropriate entities. For comparative purposes, information for calendar year 2017 is provided in the tables within this report. Appendix A presents a three-year comparison of the types of allegations and complaints received by the Hotline.

The Hotline received 104 complaints in 2018, compared to 72 complaints received in 2017. Details regarding the allegations and complaints received in 2018 are provided below (see Hotline Activity – 2018).

This report does not delineate actual or potential dollar amounts related to fraud, waste, or abuse; and therefore, is not intended to be used for that purpose. Thus, no fiscal analysis is provided for reported issues. Rather, this report provides information about how the Hotline is being utilized.

Overview

In November 2014, the Common Council adopted 350-247 of the Code of Ordinances, which codified Internal Audit's management role over the Fraud Hotline and established formal reporting requirements. Potential fraud, waste, and/or abuse may be reported to the Hotline via telephone, the online form, email, mail, fax, or by arranging to meet directly with Hotline personnel. The ordinance also established the right of anonymity for complainants that do not wish to identify themselves.

In addition to codifying the Hotline, 350-247 created a "safe harbor" provision for City employees who file a fraud complaint. The ordinance encourages City employees to file complaints of merit without fear of retaliation or loss of employment. This type of whistleblower protection is a governmental best practice that encourages use of the Hotline.

An act of fraud typically involves not only the commission of the scheme itself, but also efforts to conceal the misdeed. As reported by the Association of Certified Fraud Examiners, tips are by far the most common initial method of fraud detection. Over 40% of fraud cases are reported via tips and typically slightly more than half of all tips received (53%) are provided by employees. Secondly, 15% of all fraud detection results from internal audit efforts. Organizations without fraud hotlines are more than twice as likely to detect fraud by accident.¹

Internal Audit has engaged in efforts to encourage the use of the Hotline as a reporting tool, both internally and externally. Internal Audit continually works to develop relationships with management in various City departments to expedite the efficient and timely resolution of complaints, when applicable. Additionally, an informational brochure that promotes the Hotline, its mission and purpose, and explains what types of complaints the Hotline reviews is readily available throughout the City and is on the City's website. The Fraud Hotline information page on the City's website offers an instructional video that details the appropriate steps to report suspected occurrences of fraud, waste, or abuse in the City's operations or involving City resources.

Hotline Activity – 2018

A. Method of Contact

In 2018, the Fraud Hotline received 104 complaints. The method of contact in which these complaints were received is detailed below in Table 1. Seventy-four of the 104 complaints (71%) were received through the City Hotline phone line where a caller may speak directly with Hotline staff; 9 (9%) were received directly via email; 17 (16%) were generated through the online submission form; 1 complaint (1%) was delivered by the United States Postal Service (USPS), and 3 complaints (3%) were delivered in person.

¹ Report to the Nations – 2018 Global Study on Occupational Fraud and Abuse, Association of Certified Fraud Examiners, pgs. 4-18.

Table 1 – Method of Contact by Year

| Method of Contact | 2017 | | 2018 | |
|-------------------|--------------------|------------------|--------------------|------------------|
| | Number of Contacts | Percent of Total | Number of Contacts | Percent of Total |
| Phone | 45 | 63% | 74 | 71% |
| Email | 13 | 18% | 9 | 9% |
| Online – Web Page | 12 | 16% | 17 | 16% |
| Mail – USPS | 2 | 3% | 1 | 1% |
| In Person | 0 | 0% | 3 | 3% |
| TOTAL | 72 | 100% | 104 | 100% |

B. Source of Complaints

Of the 104 complaints received in 2018, 70 (67%) were made by citizens, while City employees generated 19 (18%) of the Hotline complaints. The remaining 15 complaints (15%) were referrals from other agencies, sources external to the City of Milwaukee, or from an unidentified source. Excluding service requests and non-city complaints from this calculation reveals that 38% of all actionable contacts/tips were made by City employees.

Additionally, complainants may contact the Hotline anonymously. Of the complaints received in 2018, 37 (36%) were made anonymously. For the remaining 67 reports (64%), the complainant provided contact or identifying information (see Table 2).

Table 2 – Source of Contact (Anonymous Reports)

| Source of Contact (Anonymity) | 2017 | | 2018 | |
|-------------------------------|--------------------|------------------|--------------------|------------------|
| | Number of Contacts | Percent of Total | Number of Contacts | Percent of Total |
| Identity Provided | 52 | 72% | 67 | 64% |
| Anonymous | 20 | 28% | 37 | 36% |
| TOTAL | 72 | 100% | 104 | 100% |

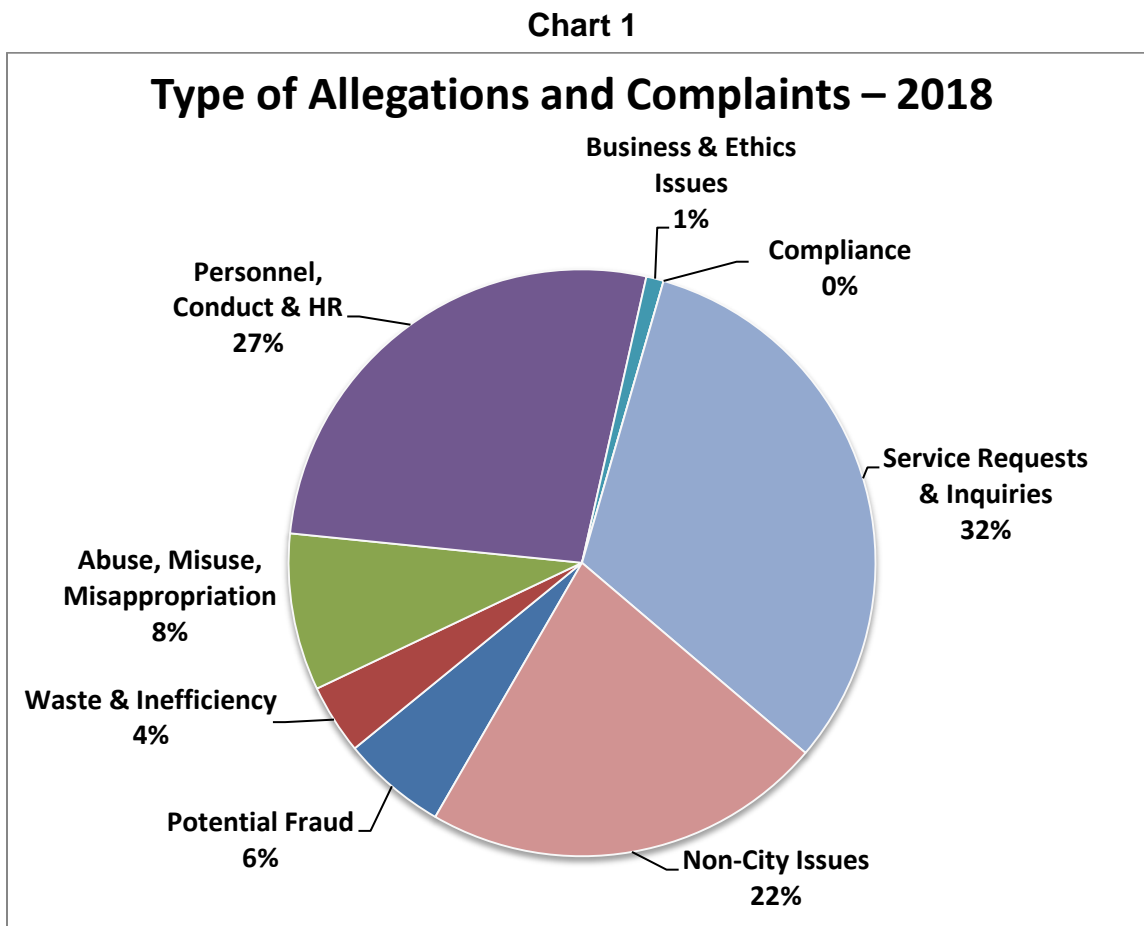
C. Types of Allegations and Complaints

To ensure reports received by the Hotline can be properly recorded, investigated, monitored and reported, all complaints and allegations are assigned to a complaint category. Complaint

categories reflect industry best practice. The use of these categories increases the efficiency of the Hotline process and improves the accuracy and relevancy of complaint tracking and reporting. All contacts received by the Hotline are categorized as one of the following:

- Potential Fraud
- Waste & Inefficiency
- Abuse, Misuse, Misappropriation of City Assets
- Personnel, Conduct & Human Resources
- Business & Ethics
- Compliance
- Service Requests & Inquiries
- Non-City Issues

Chart 1, below, illustrates the breakdown of reported allegations and complaints received by the Hotline in 2018 by category type.



The information from Chart 1 is presented below in tabular form (Table 3). Additionally, Appendix A presents a three-year comparison of the types of allegations and complaints received by the Hotline 2016 - 2018.

Table 3 – Allegations and Complaints

| Allegation and Complaint Types | 2018 | |
|----------------------------------|--------------------|------------------|
| | Number of Contacts | Percent of Total |
| Potential Fraud | 6 | 6% |
| Waste & Inefficiency | 4 | 4% |
| Abuse, Misuse & Misappropriation | 9 | 8% |
| Personnel, Conduct & HR | 28 | 27% |
| Business & Ethics Issues | 1 | 1% |
| Compliance | 0 | 0% |
| Service Requests & Inquiries | 33 | 32% |
| Non-City Issues | 23 | 22% |
| TOTAL | 104 | 100% |

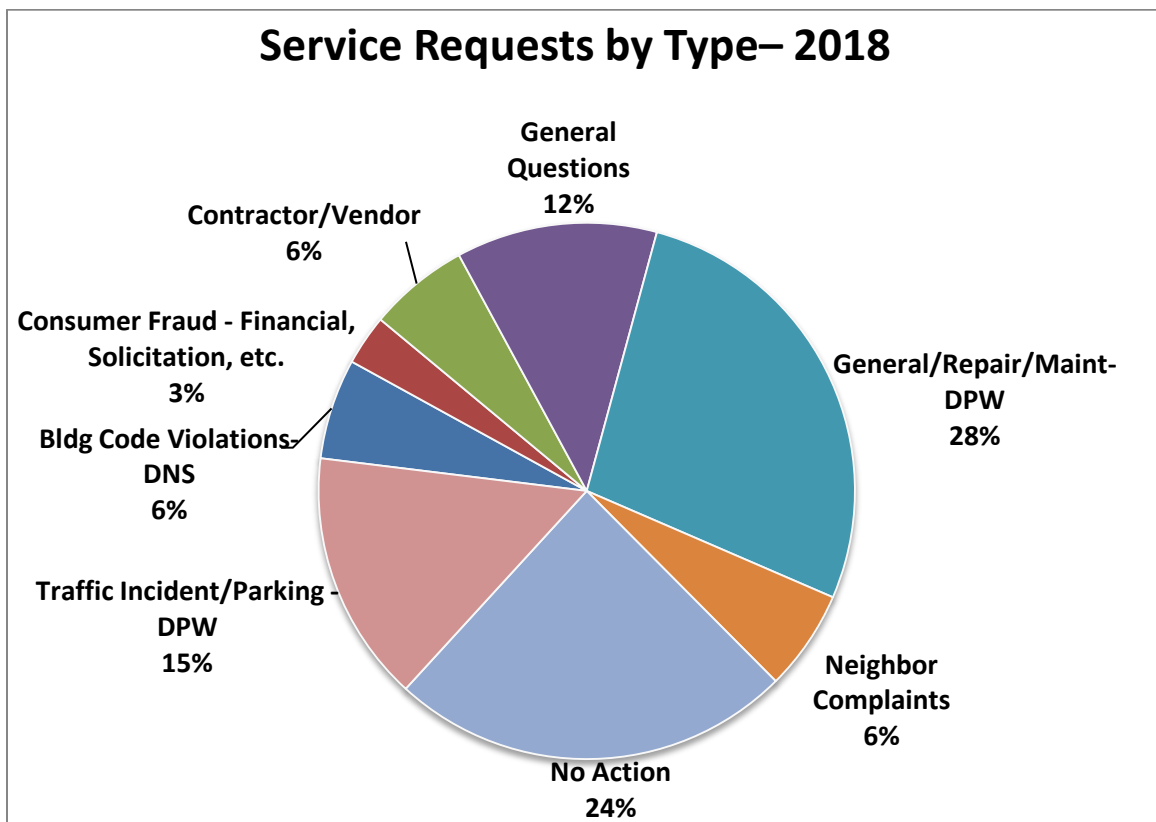
- **Potential Fraud** accounted for 6% of the total reports in 2018. This category includes allegations of accounting, misreporting, or financial misconduct by a City employee.
- **Waste and Inefficiency** accounted for 4% of complaints received in 2018. This category may include reports of unnecessary or extravagant expenditures of funds or wasteful use of City resources.
- **Abuse, Misuse and Misappropriation** complaints represent 8% of reports received in 2018. This category includes allegations of improper use or misappropriation of City resources, such as procurement or time clock abuse.
- **Personnel, Conduct and Human Resources** complaints accounted for 27% of complaints received in 2018. This category includes allegations involving employee conduct related to City and departmental policies.
- **Business and Ethics Issues** accounted for 1% of complaints received, which generally

includes reported conflicts of interest, non-competitive procurement practices, or bribery.

- **Compliance**, which encompasses allegations of non-compliance with standard criteria accounted for 0% of complaints reported in 2018.
- **Service Requests and Inquiries** was the largest category of Hotline complaints received in 2018, representing 32% of reports. This category includes requests for information or services such as sanitation collection, snow removal, reports of properties in disrepair, and requests for law enforcement non-emergency contact information. Service requests are forwarded to the City's Unified Call Center (UCC) or contact information for the applicable City agency is provided directly to the requester.

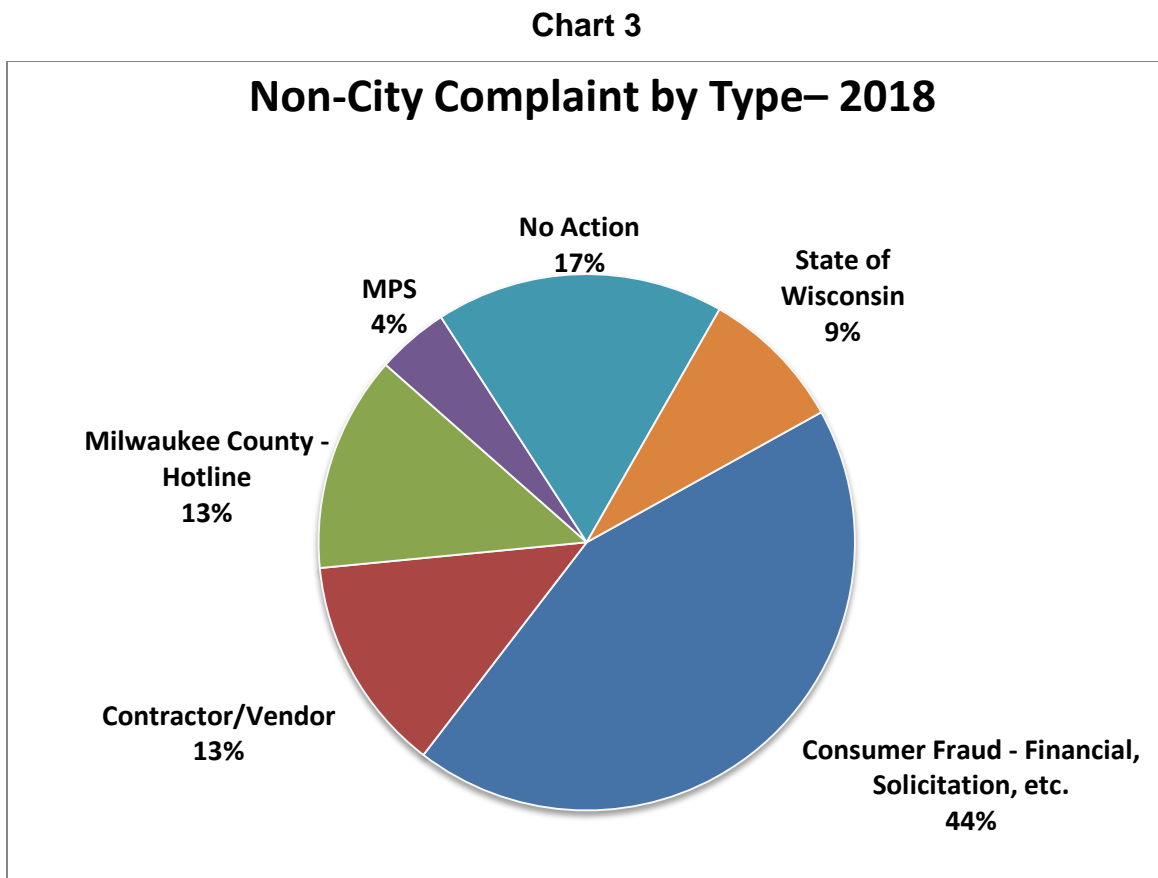
Chart 2 below, illustrates the breakdown of reported service requests received by the Hotline in 2018 by request type.

Chart 2



- **Non-City Issues** was the third largest category of Hotline complaints in 2018, representing 22% of reports received. Most complaints in this category involve a fraud allegation that requires referral to a different level of government or to an external agency, such as the State of Wisconsin or the Internal Revenue Service.

Chart 3 below, illustrates the breakdown of reported non-city complaints received by the Hotline in 2018 by complaint type.



D. Actions Taken

Complaints within the following six categories represent “actionable” complaints, for which research, investigation, and follow-up by Hotline staff and/or applicable department management is required.

- Potential Fraud
- Waste & Inefficiency
- Abuse, Misuse, Misappropriation of City Assets
- Personnel, Conduct & Human Resources
- Business & Ethics
- Compliance

Forty-eight complaints (46% of those received in 2018) fell into these six categories. For those complaints regarding employee behavior, department management ultimately determines the appropriate action to be taken in resolving substantiated reports. For example, management may determine that procedural changes, counseling, or disciplinary action is appropriate.

Table 4, below, provides a breakdown of actions taken by the Hotline in 2018, with comparative data provided for 2017. Note that service requests and non-City issues are not included in this comparison, as they do not constitute complaints against the City.

Table 4 – Actions Taken²

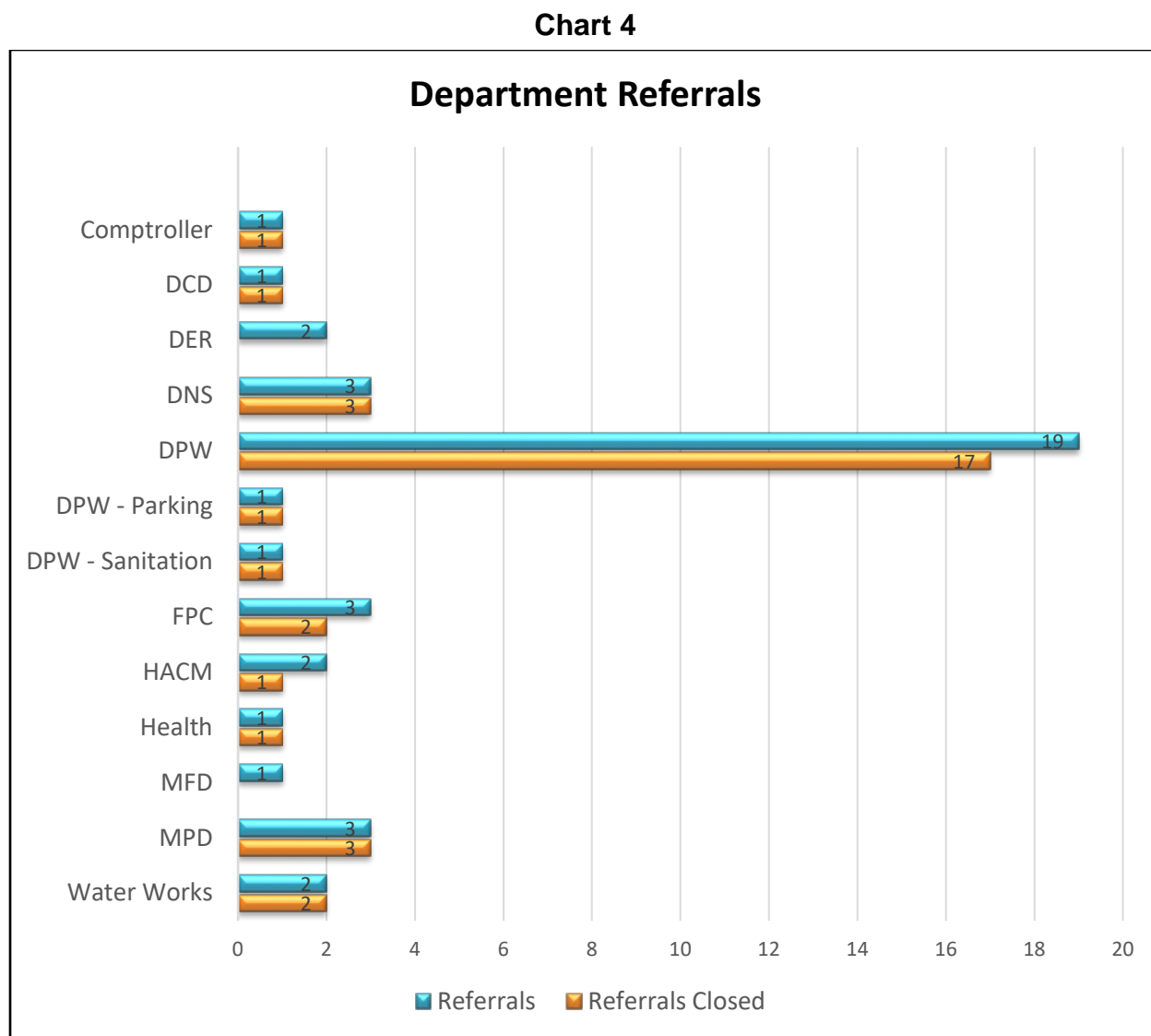
| Actions Taken | 2017 | | 2018 | |
|----------------------------------|----------------------|------------------|----------------------|------------------|
| | Number of Complaints | Percent of Total | Number of Complaints | Percent of Total |
| Department Referral | 16 | 59% | 21 | 44% |
| Investigated, and Dept. Referral | 7 | 26% | 19 | 40% |
| Internal Audit | 1 | 4% | 1 | 2% |
| Criminal Referral | 0 | 0% | 0 | 0% |
| Investigated, No Further Action | 3 | 11% | 7 | 14% |
| No Action | 0 | 0% | 0 | 0% |
| TOTAL | 27 | 100% | 48 | 100% |

Twenty-one complaints (44%) from the actionable categories alleged plausible facts and were directly referred to the applicable departments. Nineteen complaints (40%) alleged facts that were investigated and confirmed as viable by Internal Audit before a department referral was made. One complaint (2%) prompted the development of a formal audit to be performed by Internal

² See Appendix D for Key Terms and Definitions, including Actions Taken.

Audit. For seven complaints (14%), Internal Audit performed preliminary investigations and determined that the complaint lacked merit – no further action was taken.

Chart 4, below, details which City departments received Hotline referrals in 2018; as well as the number of referrals received and closed.



Once a report from one of the actionable categories has been investigated and closed, the report is deemed either substantiated or unsubstantiated. Unsubstantiated reports are generally found to be based on invalid facts or a misunderstanding of the circumstances identified and reported to the Hotline; while substantiated reports are based on confirmed facts.

Table 5 below, details the number of substantiated versus unsubstantiated reports handled by the Hotline in 2018 in comparison to 2017.

Table 5 – Final Allegation Status (Substantiated vs. Unsubstantiated)

| Final Allegation Status | 2017 | | 2018 | |
|-------------------------|------------------------------|------------------|------------------------------|------------------|
| | Number of Actionable Reports | Percent of Total | Number of Actionable Reports | Percent of Total |
| Substantiated | 4 | 15% | 8 | 17% |
| Unsubstantiated | 21 | 78% | 32 | 66% |
| Open case – pending | 2 | 7% | 8 | 17% |
| TOTAL | 27 | 100% | 48 | 100% |

As of year-end 2018, eight cases remain open as active investigations. These cases remain open due to case complexity, the necessity to work with additional departments, and the timing of their receipt by the Hotline.

Industry best practice recommends that hotline cases be closed in 30 days or less. The City’s Fraud, Waste and Abuse Hotline has successfully met this threshold since 2015. See Appendix B, Industry Benchmark Comparison for a three year comparison of the City’s Hotline closure data to a national industry benchmark closure sample.

Hotline Process and Benefits

The Hotline receives calls through a designated telephone number (**414-286-3440**) that is staffed during normal business hours, which are from 8:00 a.m. to 4:45 p.m. Monday through Friday. The option for a caller to leave a secured voicemail is available 24 hours a day, seven days a week. If the complainant speaks a language other than English, with advanced notice, the Office of the Comptroller will arrange translation or interpretive services.

Allegations and complaints can also be reported by email (**hotline@milwaukee.gov**), mail delivery (USPS), by fax, in person or through the City’s online web-based form, which is located

at [*http://city.milwaukee.gov/ReportFraudWasteandAbuseofCityResources*](http://city.milwaukee.gov/ReportFraudWasteandAbuseofCityResources).

To assist complainants in determining when to direct their concerns to the Hotline, the Fraud Hotline website and brochure include a list of the activities reviewed by Hotline versus those that are referred to an appropriate City department or outside agency. See Appendix C – Activities Reviewed by Hotline.

All allegations and complaints received by the Hotline are evaluated. Internal Audit Hotline staff assesses each Hotline complaint to determine whether the reported issue includes sufficient information to be investigated or verified, as well as whether additional information is needed from the complainant (if the complainant provided valid contact information).

Each Hotline complaint is given a unique case number, which is entered into the Hotline database, and tracked until final case disposition is reached. An initial assessment by Hotline staff determines whether the complaint has merit and how it should be handled. If a complaint is deemed viable and it contains sufficient information for investigation, it is referred to the appropriate parties for follow-up action or, in some cases, investigated by Internal Audit. Complainants who request notification of an investigation's outcome are notified when final resolution or disposition is reached.

Lastly, quarterly Hotline follow-up with applicable City departments is performed on any open cases to ensure efficient case closure. The Fraud Hotline has proven to be a benefit to the City by providing both citizens and City employees with the means to report fraud, waste, and abuse within City government. The Hotline ensures integrity, accountability, and public trust through timely investigation and resolution of reported concerns. Hotline activities are reinforced by City management's initiation of remedial and preventive measures in response to allegations received, as necessary.

Based on the varied nature of the complaints received, it is clear that the public is utilizing the Hotline. A significant number of actionable complaints (38%) have been received from City employees, indicating that the Hotline is being used as a whistleblower tool – which is part of an

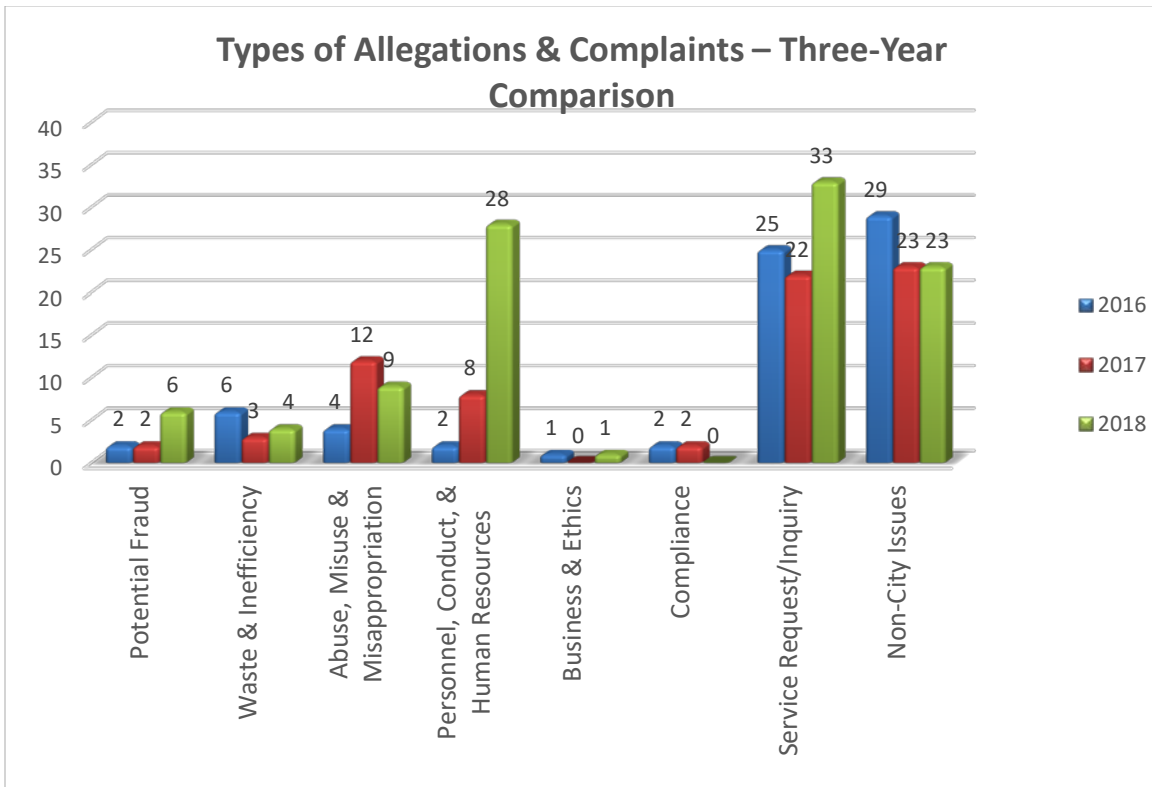
important internal control mechanism used to mitigate the risk of theft and abuse. Internal Audit will continue its outreach efforts to various departments, management, employees, and citizens to maintain the benefits provided by the Hotline.

Appendix A

Types of Allegations & Complaints – Three-Year Comparison (2016 – 2018)

The following presents a three-year comparison of the types of allegations and complaints received by the Hotline in 2018.

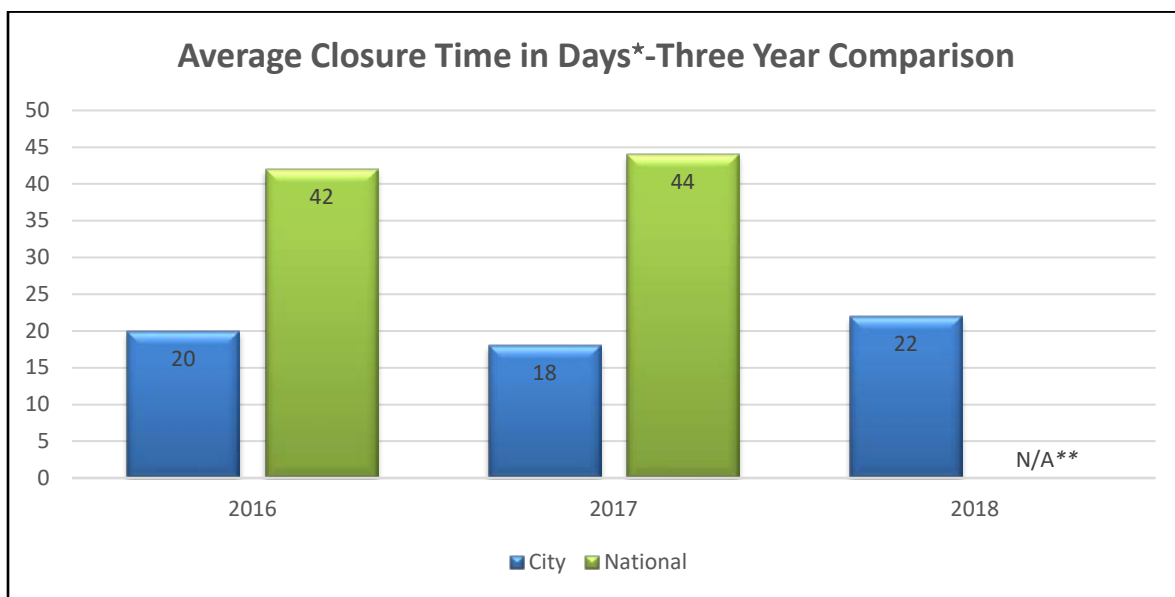
| Types of Allegations & Complaints | Number of Allegations & Complaints | | |
|---------------------------------------|------------------------------------|-----------|------------|
| | 2016 | 2017 | 2018 |
| Potential Fraud | 2 | 2 | 6 |
| Waste & Inefficiency | 6 | 3 | 4 |
| Abuse, Misuse & Misappropriation | 4 | 12 | 9 |
| Personnel, Conduct, & Human Resources | 2 | 8 | 28 |
| Business & Ethics | 1 | 0 | 1 |
| Compliance | 2 | 2 | 0 |
| Service Request/Inquiry | 25 | 22 | 33 |
| Non-City Issues | 29 | 23 | 23 |
| | 71 | 72 | 104 |



Appendix B

Industry Benchmark Comparison

Industry best practice recommends that hotline cases be closed in 30 days or less. The City's Fraud, Waste and Abuse Hotline has consistently done so since 2015, when the use of this benchmark data was identified for comparison purposes. The chart below provides a three-year comparison of Hotline case closure times versus national case closure times.



* City closure time in average days vs. national closure time in median days. Source Penman, Carrie and O'Mara, Edwin, NAVEX Global –The Ethics and Compliance Experts - 2018 Ethics & Compliance Hotline Benchmark Report, p. 7.

** 2018 National data not yet available

Appendix C

Activities Reviewed by Hotline

The following is a list of the type of activities Hotline staff investigates or refers to other City departments for investigation:

| Items <u>Investigated</u> by Hotline Staff or Referred to Another City Department | |
|--|---|
| Activity | Example |
| Illegal acts | Theft, fraud, kickbacks, price fixing or conflict of interest by City employees and contractors |
| Misuse or abuse of City property | City buildings, vehicles or equipment (tools, supplies) |
| Misuse or abuse of City resources | Excessive overtime, time card issues, wasteful practices |
| Gross misconduct | Reckless disregard for the safety of others, falsification of documents or other forms of misrepresentation |
| Employee misconduct | Unsafe driving, altercations with the public, errands on work time, extended breaks |
| Other improper activities by or against the City of Milwaukee | Vary in nature (work quality, repair issues, excessive number of personnel on a job) |

Complainants will be provided contact information for alternative resources to report the following types of complaints:

| Items <u>Not Investigated</u> by Hotline Staff – Alternative Resources Provided | |
|--|--|
| Activity | Entity or Organization Involved |
| Non-City Issues: misuse, abuse, improper or illegal activities | <ul style="list-style-type: none"> • Federal • State • County • Private parties |
| Non-fraud complaints | <ul style="list-style-type: none"> • Vary in nature (City of Milwaukee-Unified Call Center, public support and social services, informational agencies, etc.) |

Appendix D

Key Terms and Definitions

Abuse, Misuse, Misappropriation

The intentional misuse of government resources by a government employee. For example:

- Using City property for personal use
- The failure to complete a leave-slip when absent from work

Business and Ethics

This category may include kickbacks; non-competitive procurement; bid rigging; ethics issues, and vendor or customer misconduct. For example:

- Falsification of contracts/documents

Compliance

Non-compliance entails violations of City ordinances or policies; State statutes; or Federal regulations. For example:

- Public Records; FMLA; HIPPA; etc.

Criminal Referral to Law Enforcement Agencies

The severity of reported allegations about illegal activity prompts immediate referral to the Milwaukee Police Department or to the applicable Federal, State, or municipal law enforcement agency.

Department Referral

Reports alleging viable facts from the outset, with sufficient information for investigation, are referred directly to the applicable City department for investigation and resolution. The outcome of the department's investigation and any remedial action (if applicable) is shared with the Hotline prior to case closure. For example:

- City time abuse by an employee
- Employee conduct
- Excessive number of employees on a job site

Fraud

A wrongful or criminal scheme; a type of illegal act intended to result in financial or personal gain or the acquisition of something of value through willful misrepresentation. For example:

- Falsifying financial records to cover up the theft of money

Hotline

A resource used to report fraud, allegations of wrongdoing, or complaints that is managed internally by the Internal Audit Division.

Internal Audit Performed

An independent investigation by Internal Audit into a reported Hotline complaint resulting in the initiation of a formal audit by Internal Audit with subsequent reporting to the Finance and Personnel Committee.

Investigated, and Department Referral

A report alleges facts that were investigated and confirmed as viable by Internal Audit before a department referral was made. For example:

- An allegation about an individual whose status as a City employee must be confirmed prior to referral

Investigated, No Further Action

A report alleges facts that were investigated and determined to be nonviable by Internal Audit. The case is then closed. For example:

- An allegation about suspicious behavior that is determined to have a valid City business purpose

No Action

Information required for report follow-up is inadequate, incomplete, or incorrect and complainant contact information was not provided. The case is closed.

Non-City Referral

Complaints about programs that do not pertain to City government are forwarded to the appropriate agency. For example:

- Allegations of Food-Share (food stamp) abuse are referred to the State Department of Health Services
- Allegations of daycare fraud are referred to the Department of Children and Families

Personnel, Conduct, and Human Resources

This category includes allegations involving employee conduct as it relates to standard City and departmental policies and practices. For example:

- Harassment, retaliation, compensation, unsafe driving; reckless disregard for safety of others, altercations with the public, etc.

Service Request – Referral

Routine service requests are referred to the City's Unified Call Center for remediation. For example:

- Sanitation pick-up
- Street light outage

Waste

Mismanagement, inappropriate actions, and/or inadequate safeguarding of resources.

For example:

- Unnecessary or extravagant expenditures of funds to purchase items with no relevant organizational purpose; or inefficient practices

Martin Matson
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Special Deputy Comptroller

Rocklan Wruck, CPA
Special Deputy Comptroller

Office of the Comptroller

March 4, 2019

Honorable Tom Barrett, Mayor
The Members of the Common Council
City of Milwaukee
Milwaukee, WI 53202

Dear Mayor and Council Members:

With this letter, the Office of the City Comptroller acknowledges receipt of the preceding report, which summarizes the activities of the City's Fraud, Waste, and Abuse Hotline (Hotline) for the year ending December 31, 2018. I have read the report and support the activities detailed within.

The City Comptroller was not involved in any portion of the work conducted in connection with the 2018 Hotline functions. At all times, the Internal Audit Division worked autonomously in order to carry out Hotline activities.

Sincerely,

A handwritten signature in cursive script that reads "Martin Matson".

Martin Matson,
Comptroller