



Interoffice Memorandum

DATE: September 28, 2011

TO: Members of the Board of School Directors

FROM: Jim Cigan

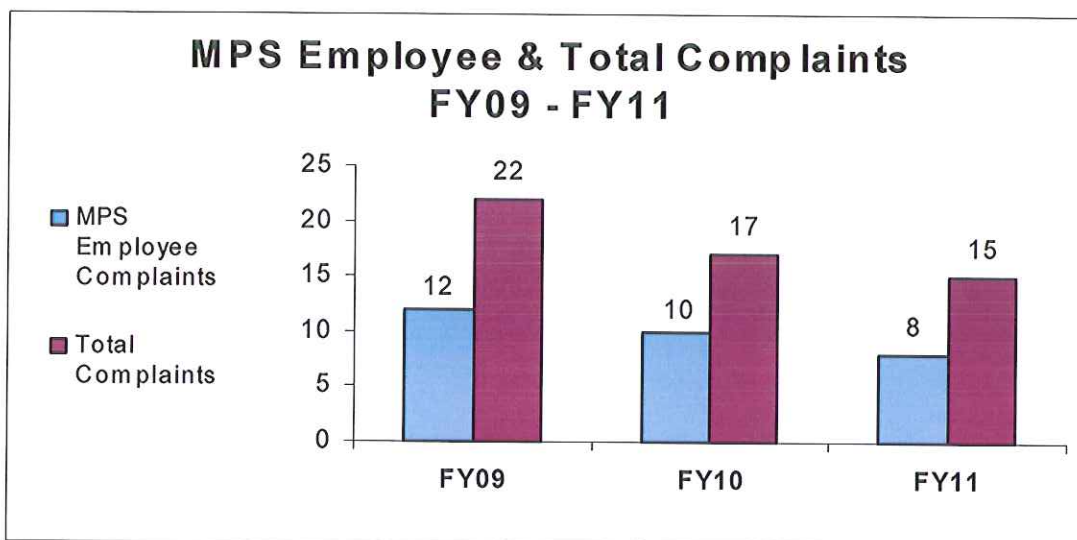
RE: FY11 Fraud, Waste & Abuse Annual Report

C: Gregory Thornton, Lynne Sobczak, Gerald Pace, Robert DelGhingaro

Audit Services receives allegations of fraud, waste and abuse via e-mails, regular mail, telephone calls, department referrals, leads from audits and through the MPS Fraud Hotline. The Hotline provides employees, citizens and other interested individuals a means to confidentially or anonymously report suspected instances of fraud, waste, or abuse at MPS. This memo summarizes activities from July 1, 2010 through June 30, 2011.

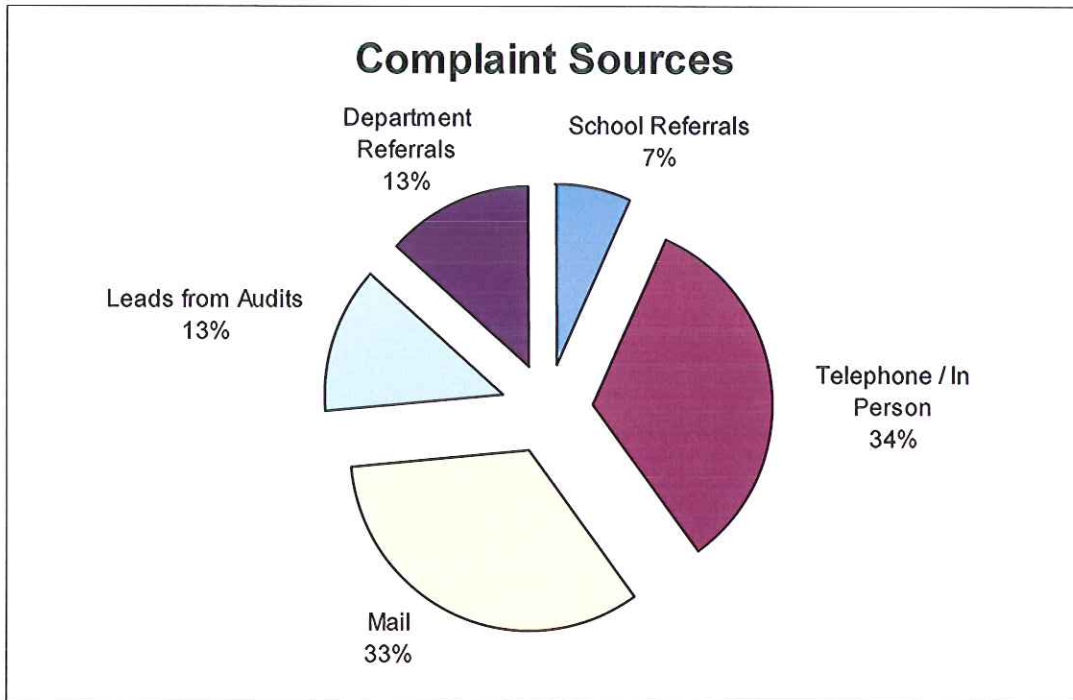
Number of Complaints

Audit Services received 15 complaints reporting suspected fraud, waste and abuse in FY11. Of these 15 complaints eight (53%) were from employees. Nine (60%) of the complaints were name associated and the remaining six (40%) contacts were anonymous tips. Multiple complaints regarding the same allegation are counted individually. Employees remain a vital resource in the identification and reporting of fraud, waste and abuse. The number of complaints received is presented below.



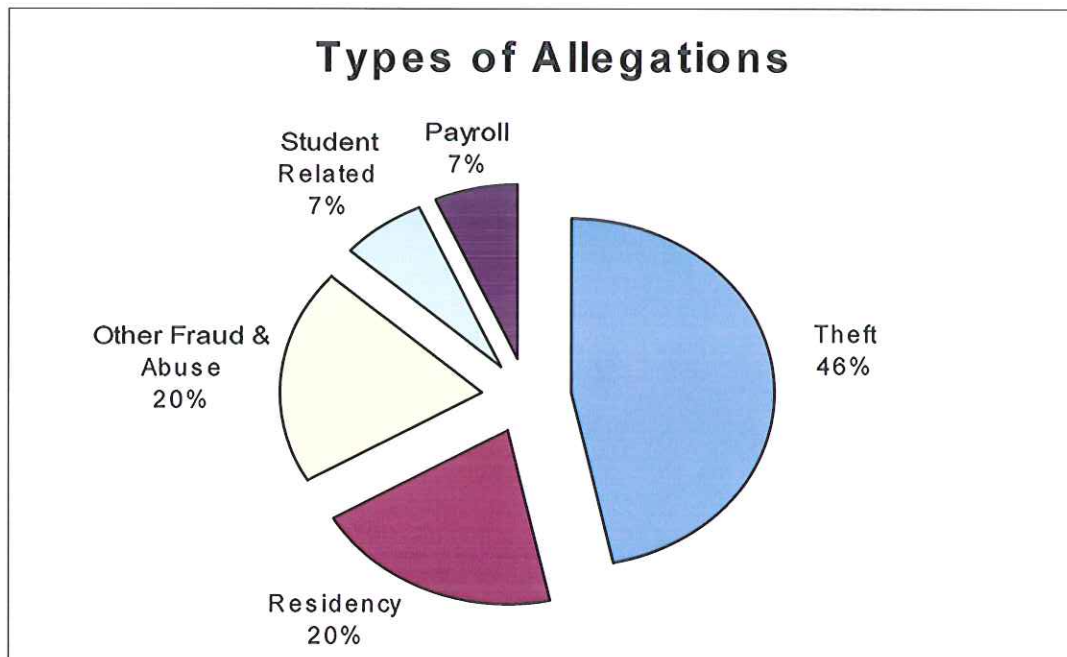
Complaint Sources

The 15 complaints in FY11 were received via telephone calls, regular or e-mail, leads from audits, department referrals and through school referrals. The complaint sources are presented below.



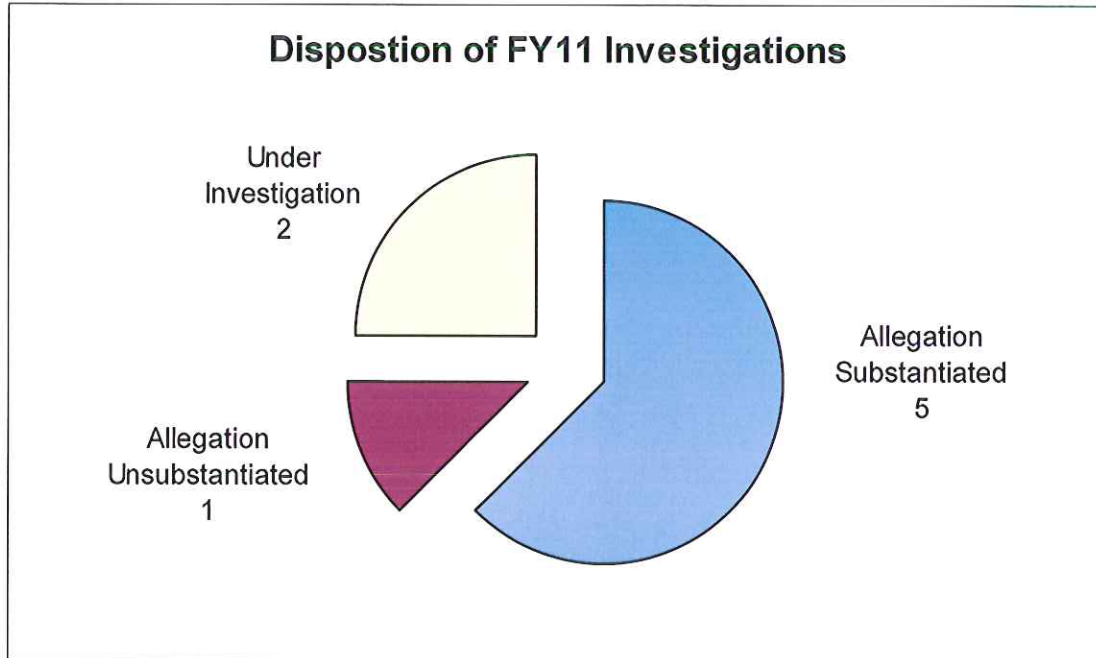
Types of Allegations

The 15 complaints cover a wide range of issues from alleged theft to employee matters such as compliance with residency requirements to student related concerns. All allegations were evaluated by Audit Services and investigated as necessary. Allegations not within the jurisdiction of Audit Services were referred to the appropriate department or non-MPS entity for disposition. The types of allegations received in FY11 are classified as follows.



Disposition of Investigations

Audit Services evaluates all complaints reporting suspected fraud, waste or abuse and determines whether the information provided and the allegation warrants opening an investigation. From the 15 complaints received in FY11 six investigations were opened. In addition, there were two open investigations carried over from FY10. The eight investigations resulted in five allegations that were substantiated; one allegation that was not substantiated; and two open and ongoing investigations. The disposition of FY11 investigations is presented below.



FY11 Significant Investigations

All reports of investigations are **CONFIDENTIAL**. If Audit Services has reasonable cause to believe that illegal activities may have occurred, the investigation report is referred to a prosecutorial agency. In all cases where allegations are substantiated, the resulting investigative report is provided to the District Official who may decide, based on the facts presented, to take administrative action against an employee(s) or others. The following paragraph provides a summary of one of our closed investigations.

Routine audit leads to a secretary's \$6,000 confession; deferred prosecution agreement; and restitution.

Audit Services conducted an investigation of what appeared to be abnormal financial activities performed by a school secretary. The unusual activities were identified by Audit Services during a routine audit of the school's financial activities. A surprise cash count was conducted at the school. Audit Services found bounced checks made payable to the school by the secretary. In addition, the investigation identified over \$6,000 in missing cafeteria and other school monies. The suspected fraud was documented by the auditors and then provided to the Milwaukee Police Department. The former MPS employee was arrested and presented with the documentation prepared by the auditor. The employee confessed and through the Milwaukee County District Attorney's Office agreed to a Deferred Prosecution agreement and restitution. As a result of the investigation, the inappropriate activities of this individual ceased upon termination of employment and internal controls over cash handling are being reviewed by District Administration.

Closing

Audit Services actively works with the Office of the Chief Financial Officer and the Office of Accountability and Efficiency to improve controls and district financial policies and procedures. The detail and accuracy of our work has been acknowledged by District Administration especially with regard to the documentation provided for disciplinary actions. Our work has also led to a reassessment of how cash, the most vulnerable school financial asset, is handled. Currently, we are working with the School Nutrition Services and Finance Departments to implement a better way to control the two million dollars of cash and checks that flow through our school cafeterias each year. We have recommended an innovative method and redesign of this process that will increase control over cash and should result in cash handling efficiencies.

Audit Services continues to forge important relationships with the Milwaukee Police Department, Milwaukee County District Attorney's Office and the FBI in an effort to more efficiently investigate and eradicate fraud, waste and abuse from government. We have been called upon by other government agencies to share our Fraud Hotline experiences and to assist in their investigations.

During FY11 restitution payments relating to current and prior year Hotline matters totaled \$4,476. Repayments owed to MPS at June 30, 2011 as a result of Hotline judgments total \$148,687. Had we not identified these matters, the losses to the District could have been even higher.

We believe our efforts, as detailed in this report, demonstrate the value of these activities. Please contact me if I can be of assistance.