

ANNUAL REPORT FISCAL YEAR 2008

OFFICE OF INSPECTOR GENERAL



**State of Michigan
Department of Human Services**

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EXECUTIVE SUMMARY

AGENTS COMPLETE
ACTION ON 4,208
CASES

Office of Inspector General agents has increased efficiencies to improve productivity. Agents completed investigations on 4,208 cases in FY2008. Agents referred 3,755 cases to county prosecutors for action and 453 cases were resolved via administrative action.

INCREASE IN
FRAUD FOUND

The dollar value of cases referred to county prosecutors in FY2008 was \$17.1 million for a two year total of \$35.9 million. The total represents a substantial increase over the \$28.9 million during the previous two years.

INCREASE IN
RECEIVABLES
ESTABLISHED

The dollar value of total receivables established during FY2008 was \$15.1 million for a two year total of \$30.0 million. The total represents a dramatic increase over the \$19.2 million during the previous two years.

OIG ESTABLISHES
SPECIAL
INVESTIGATIONS
UNIT

In June 2008, OIG created the Special Investigations Unit consisting of a manager and four senior level regulation agents. The SIU is tasked with completing complex criminal and administrative investigations of DHS employees, contractors, businesses, vendors and recipients that receive program funds administered by DHS.

NEW OFFICE OF
MONITORING AND
INTERNAL
CONTROLS

The Office of Monitoring and Internal Controls (OMIC) has been established within OIG. OMIC is responsible for coordinating the department's corrective action program on audit findings and the oversight of the department's sub-recipient monitoring program. The office is also responsible for the department's biennial assessment process (internal control evaluation) and internal controls structure, performs all DHS audit liaison functions, and reviews contracted agency's audit reports for compliance with federal and state regulations as well as departmental contract provisions. OMIC also administers the DHS audit appeals process.

OFFICE OF INSPECTOR GENERAL

The Office of Inspector General (OIG) is a criminal justice agency in the Department of Human Services, created in 1972. The primary duty of the OIG is to investigate cases of alleged fraud within the Department. State law [MCL 400.43b] requires the OIG to perform the following activities:

- Investigate fraud, waste and abuse in the programs administered by the DHS.
- Make referrals for prosecution and disposition of appropriate cases as determined by the Inspector General.
- Review administrative policies, practices, and procedures.
- Make recommendations to improve program integrity and accountability.

MISSION STATEMENT

The mission of the OIG is to assist the DHS in maintaining integrity and accountability in the administration of its programs. The OIG provides investigation and advisory services to ensure appropriate and efficient use of available public resources.

VALUES OF THE OFFICE OF INSPECTOR GENERAL

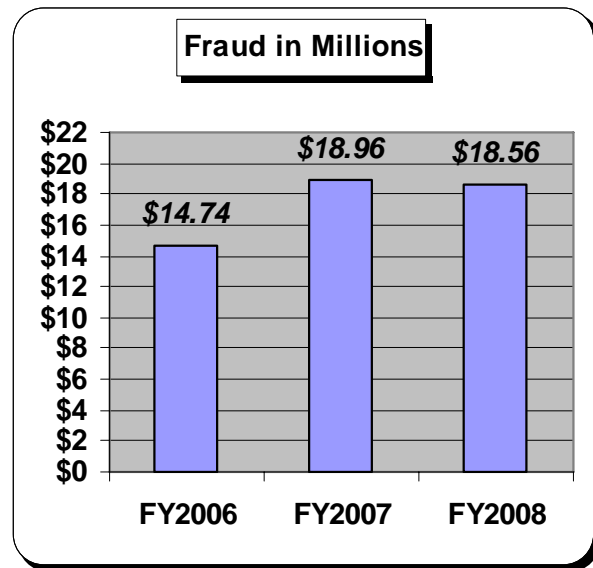
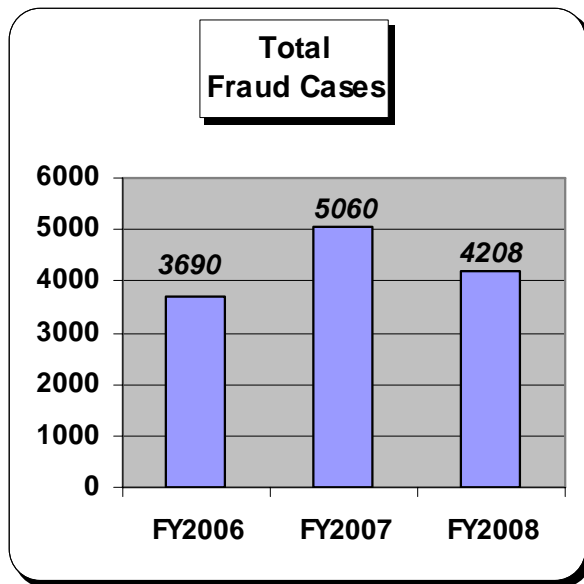
- Excellence in the performance of our duties
- Highest possible standards of professional conduct
- Innovation from all levels of the organization
- Support the accuracy and integrity of all DHS programs

The Office of Inspector General will be held accountable by the people of the State of Michigan for maintaining the highest standards of integrity and good moral character.

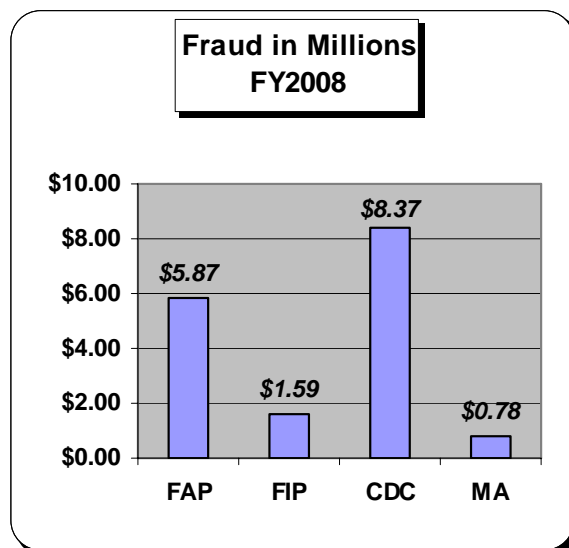
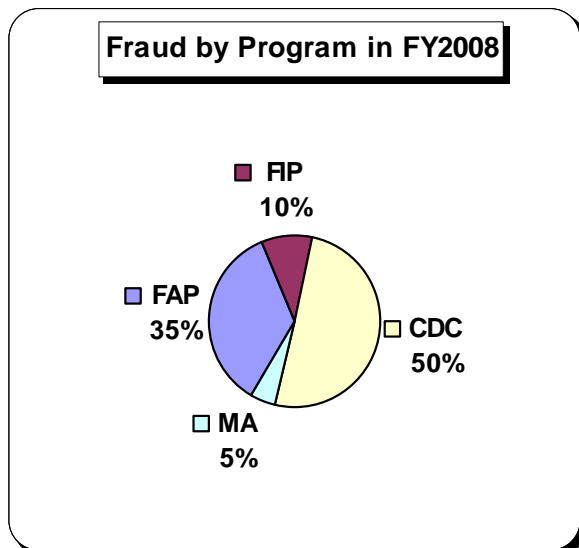
As members of the Office of Inspector General, we must work together as a team to plan and strive for excellence, realizing the daily decisions that are made will reflect on the future of our organization as a whole.

FRAUD INVESTIGATIONS

OIG staff established 12,958 fraud cases over the past three years, with the majority involving multiple program areas. During the three years, 4,179 criminal warrants were authorized. Investigations by OIG agents have discovered over \$52.26 million dollars in fraud during the three year period.

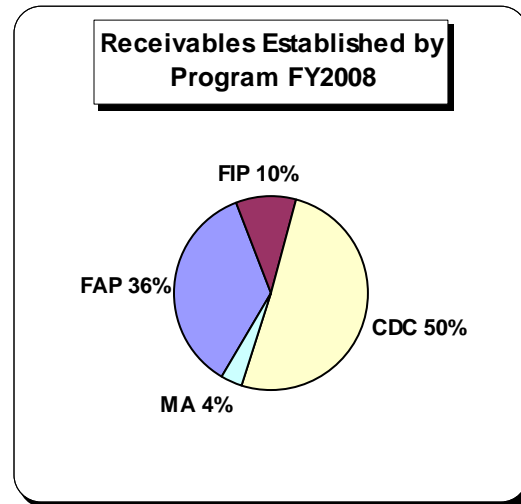
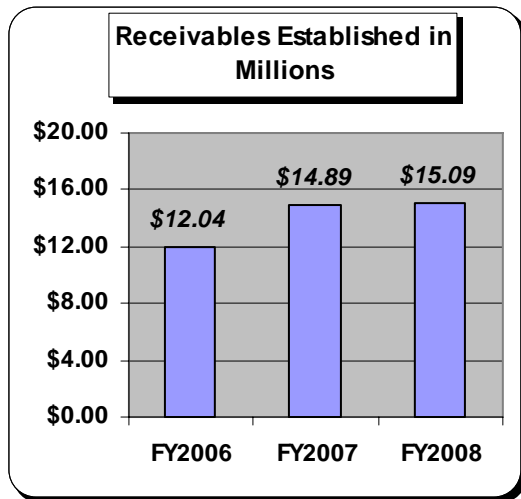


Fraud in the CDC program accounted for 50% or \$8.4 million during FY2008.



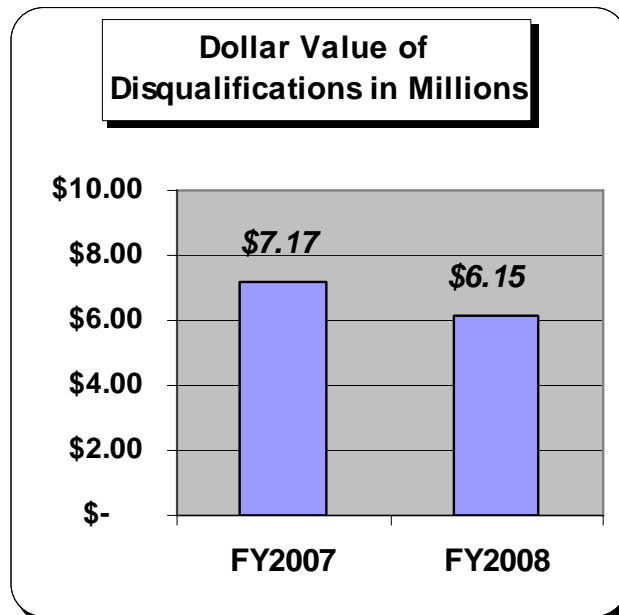
RECEIVABLES ESTABLISHED

OIG investigations established over \$42.0 million dollars in receivables over the past three years. The gains during FY2007 to FY2008 were primarily a result of an increase in cases where clients voluntarily sign repayment agreements. The Child Development and Care program accounted for half of all receivables established in FY2008.



PROGRAM SAVINGS

Disqualifications are a penalty for committing an intentional program violation. Clients do not receive benefits during disqualification periods. The dollar value of disqualifications imposed as a result of OIG investigations from FY2007 and FY2008 was \$13.3 million dollars.

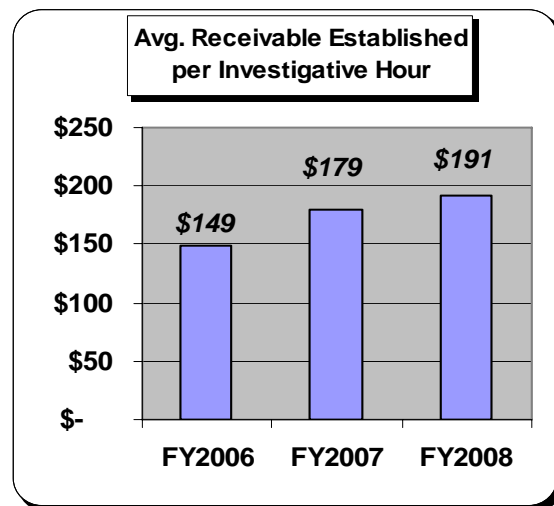
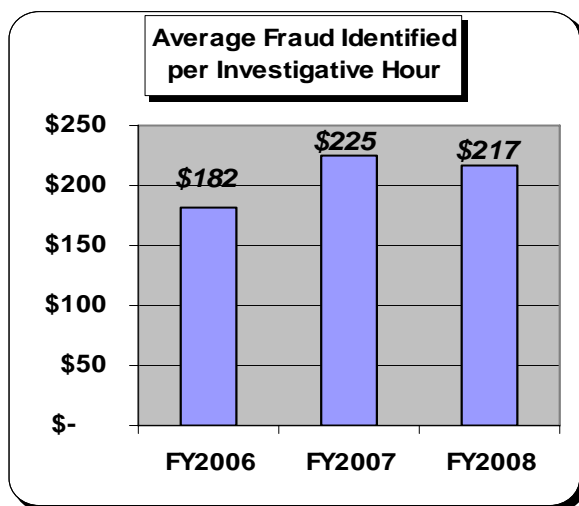


COST EFFECTIVENESS and PRODUCTIVITY

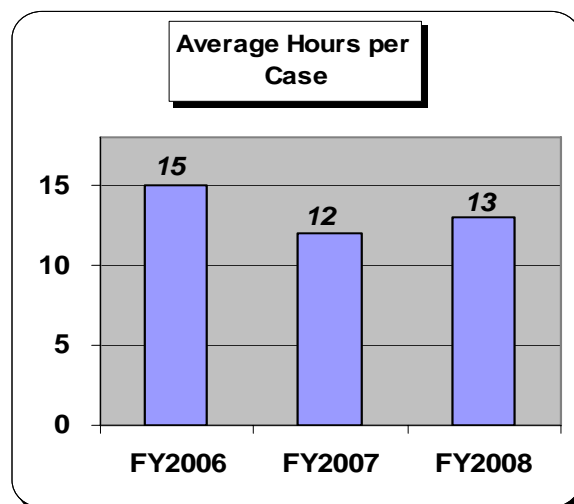
The average fraud found per investigative hour in FY2008 was \$217. The average receivable established per investigative hour in FY2008 was \$191.

The average cost per hour for a Regulation Agent in FY2008 was \$40*. The cost effectiveness ratio for fraud identified per investigative hour was 5.4 to 1 in FY2008. The cost effectiveness ratio for receivables established per investigative hour was 4.8 to 1 in FY2008.

**Agent costs per hour include salary and wages and benefits for Regulation Agent 11 position at the top of the pay scale.*

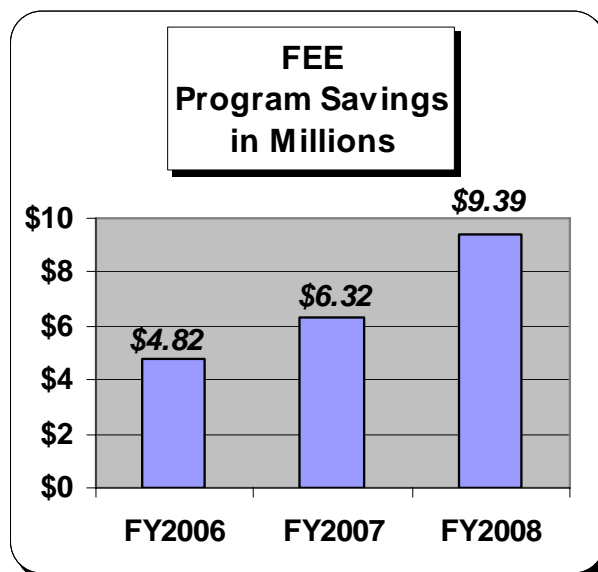
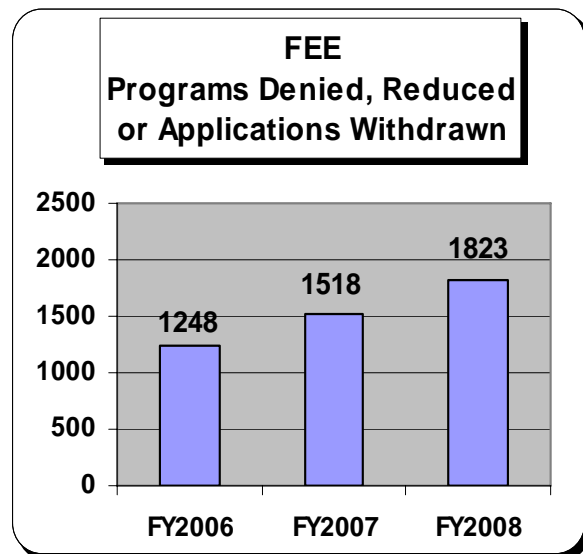
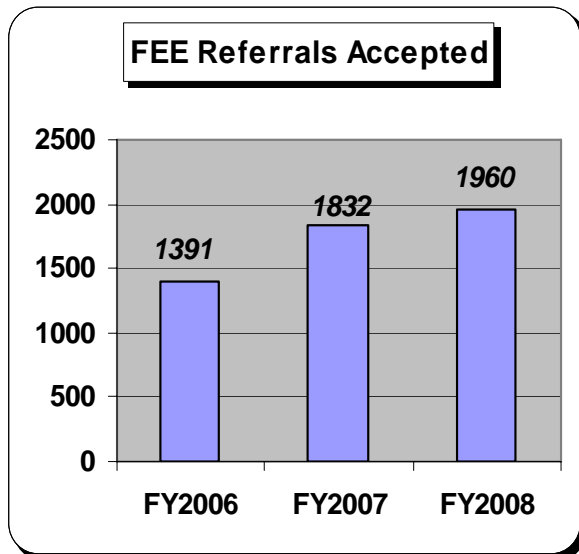


OIG agents and managers strive to gain efficiencies and productivity from year to year. The average hours necessary to process a case rose slightly to 13 in the past year.



FRONT END ELIGIBILITY (FEE)

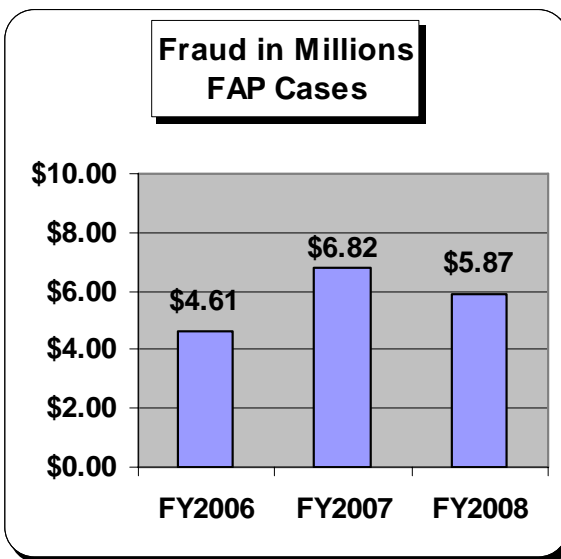
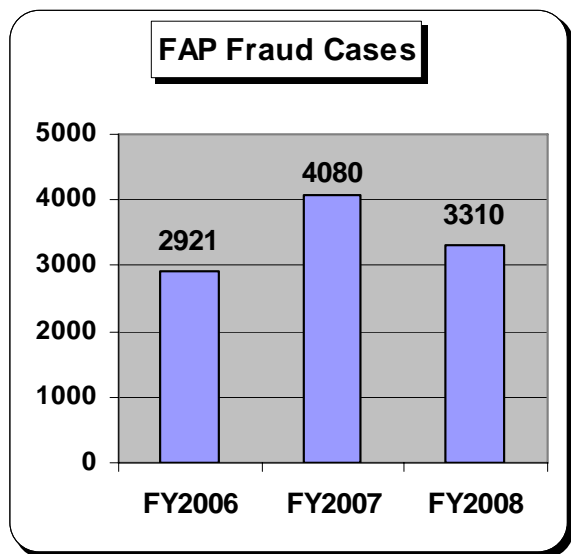
Under the FEE, DHS eligibility staff may request a pre-eligibility investigation by an OIG agent when applications or re-certifications for public assistance contain suspicious or error prone information. In focusing on fraud prevention, the FEE was expanded in FY2008. Berrien County, the Inkster and the Gratiot/7 Mile Districts in Wayne County have been added as FEE locations. FEE has contributed to FAP, FIP, CDC and MA eligibility determination error reduction. FEE agents continue to operate in Oakland and Macomb counties and the Wayne County Joy/Greenfield District.



By partnering with DHS Managers, Supervisors and Specialists, FEE staff have made substantial progress in identifying potential fraud prior to case opening.

FOOD ASSISTANCE PROGRAM (FAP)

During the past three years, the OIG has investigated 10,311 fraud cases in the Food Assistance Program including 3,310 in FY2008. The alleged fraud found in FY2008 was \$5.87 million for a three year total of \$17.3 million dollars.



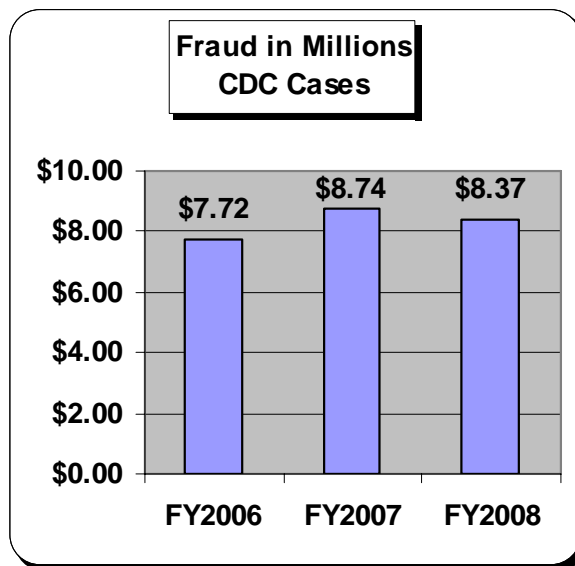
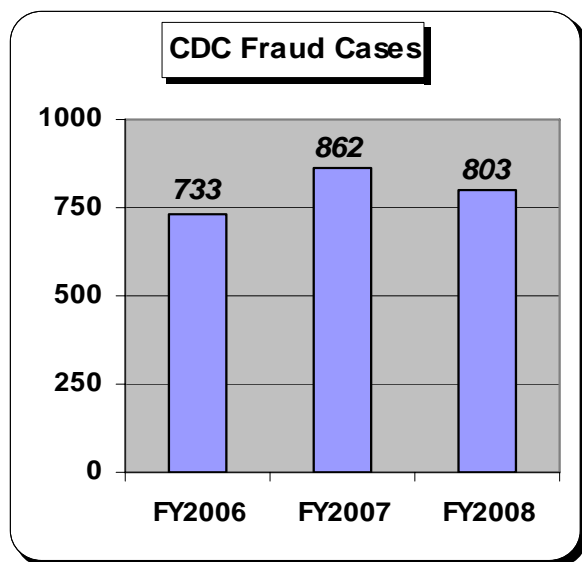
The OIG partners with the USDA-OIG and the Michigan State Police to investigate Food Assistance Program (FAP) client and retailer trafficking of EBT benefits via the Bridge Card in Michigan. Food stamp trafficking involves the buying or selling of FS benefits for cash or consideration other than eligible food.

During 2008 OIG agents cooperated with federal and state law enforcement partners in an investigation that resulted in a successful raid of nine stores for food stamp trafficking which defrauded taxpayers of more than a half-million dollars in alleged fraud. The raid resulted in 22 arrests and the recovery of more than \$100,000.

The OIG also partners with the nationwide Public Assistance Reporting Information System (PARIS) to identify clients who engage in FAP transactions outside of Michigan for extended periods, suggesting they may no longer be Michigan residents. OIG works with DHS County Directors to ensure that client eligibility is re-evaluated for all clients conducting FAP transactions for extended periods in another state.

CHILD DEVELOPMENT and CARE PROGRAM (CDC)

During the past three years, the OIG has seen an increase in the number of fraud cases in the CDC program. The alleged fraud found in FY2008 was \$8.37 million for a three year total of \$24.83 million dollars. As the OIG continues to focus on high-risk provider and client cases, findings are used to make recommendations for improved CDC policy and payment accuracy.



In the past three years the OIG has developed an innovative approach utilizing technology to match clients with employment earnings records maintained by the Michigan Unemployment Agency to identify potential CDC overpayments. In partnership with the Department of Information Technology (DIT), OIG implemented a first-in-the-nation Reverse Wage Match, linking day care benefits data with wages data, and establishing parameters to detect fraud in the program. OIG uses the data to correlate those clients who are receiving a high level of CDC due to "employment" but have low or no income reported. The National Association of State Chief Information Officers (NASCIO) honored Michigan's Department of Human Services Office of Inspector General with a recognition award for the innovative use of technology for fraud detection.

In FY2008:

- OIG referred 914 child daycare cases for criminal prosecution.
- Of these cases, 158 were CDC providers.
- Criminal warrants were authorized in 395 cases.
- Criminal convictions were handed down on 315 cases.

SPECIAL INVESTIGATIONS UNIT

In addition to DHS client welfare fraud investigations, OIG is responsible for investigating complaints and referrals regarding alleged fraud by outside agencies that provide services to DHS clients. These more complex criminal and administrative investigations may involve service and child care providers, vendors, EBT retailers and DHS employees.

From June 2008 through April 2009, the SIU completed 133 investigations, in which they identified approximately \$1.45 Million of client, provider, vendor, and employee fraud.

The following are some examples of Special Investigation Unit results;

FELONY FALSE PRETENSES CONVICTION - SIX MONTHS JAIL

An SIU Agent submitted a Child Development and Care provider fraud investigation for prosecution to the Cheboygan County Prosecutor. The provider admitted over-billing the Department and that she had requested the parents sign (approximately) four years of attendance records prior to meeting with the agent. The provider pled guilty to the crime of Felony False Pretenses \$1,000-\$20,000, and was ordered to repay DHS \$43,727. The provider received six months jail time with 3 months held in abeyance and three years probation.

CDC PROVIDER FRAUD

A Kent County child day care provider was found to have over billed the State of Michigan for 12,123 hours of care for 29 school aged, DHS eligible children from January 2004 through April 2005. The provider was interviewed by OIG investigators and stated that she ran a 24 hour group home that picked children up from their homes and schools and dropped the children off as needed or kept them over night. The case was referred to the Kent County Prosecutor and the provider signed a repay agreement for the over-issuance of \$34,563.

CDC RELATIVE PROVIDER FRAUD

An SIU Agent completed a Child Development and Care fraud investigation of a relative provider who received payments from March 2003 to June 2008. The provider was not eligible for benefits received because there was no relationship to the children she provided care for during the time period. The provider was interviewed by OIG investigators and acknowledged that there was no family relationship. The case was referred to the Genesee County Prosecutor and the provider signed a repay agreement for the over-issuance of \$61,864.

ADOPTION SUBSIDY FRAUD

The Special Investigations Unit submitted a complaint to the Attorney General regarding an Adoption Subsidy Program fraud committed in Wayne County. An adoptive parent continued to receive Adoption subsidy funds in excess of \$20,000 after they no longer had custody of the child. The fraud was discovered when the child's new adoptive parent inquired about subsidy for her child and was informed that a case already existed.

FELONY WELFARE FRAUD OVER \$500

A Special Investigations Unit agent submitted a Child Development and Care provider fraud investigation to the Otsego County Prosecutor. Evidence revealed that the provider had over-billed the Department \$25,030, over a 30 month period. The provider pled guilty to Attempted Felony Welfare Fraud over \$500 and was ordered to repay DHS \$25,030. The provider received two months in jail and two years probation.

CDC RECIEPIENT PLEADS GUILTY TO FRAUD

An SIU Agent completed a Child Development and Care fraud investigation of a client who received CDC benefits from 2006 to 2007 but was not eligible for all the benefits she received. The client was employed as a home help care provider and only worked 15 hours per week but stated that she worked 25 to 30 hours per week. After the investigation the case was submitted to the St. Clair County Prosecutor's Office and a warrant was issued. The client pleaded guilty to Felony Welfare Fraud over \$500, paid \$1,000 fines and costs and \$10,144 restitution.