

# FY2012 ANNUAL REPORT



## State of Michigan Department of Human Services Office of Inspector General



**Rick Snyder, Governor**  
**Maura D. Corrigan, Director of Human Services**  
**Alan Kimichik, Inspector General**



## **EXECUTIVE SUMMARY**

### **Recipient Fraud Detection and Prevention**

#### **In FY2012, Office of Inspector General (OIG) Agents:**

- Identified \$112 million of fraud, cost savings and established program disqualifications, a 107 percent increase over FY2011.
- Completed 8,855 recipient fraud investigative dispositions, an 84 percent increase over FY2011.
- Completed 18,977 front end eligibility (FEE) investigations, a 178 percent increase over FY2011.
- FEE investigation results identified \$69.5 million in cost avoidance, a 129 percent increase over FY2011.
- Established an additional \$14.4 million in cost savings from intentional program violations (IPV) disqualifications, a 100 percent increase over FY2011.
- Identified \$22.6 million of recipient fraud, a 73 percent increase over FY2011.
- Identified \$310 of recipient fraud per investigative hour, a 55 percent increase over FY2011.
- Three-year program savings in FEE of \$111.82 million.

### **Special Investigations Unit (SIU)**

#### **In FY2012, the Special Investigations Agents:**

- Completed 225 investigations, a 15 percent increase over FY2011.
- Identified \$5.6 million of provider, contractor and employee fraud, a 44 percent increase over FY2011.
- Identified \$420 of fraud per investigative hour, a 15 percent increase over FY2011.

### **Benefit Trafficking Unit (BTU)**

#### **In FY2012, Benefit Trafficking Agents:**

- Completed 1,124 benefit trafficking investigations, a 182 percent increase from FY2011.
- Identified \$2.2 million in fraud from trafficking, a 271 percent increase from FY2011.
- Established \$1.4 million in receivables from trafficking, a 110 percent increase from FY2011.

### **Cost Effectiveness and Productivity**

#### **In FY2012, Cost Effectiveness:**

- Every dollar spent on fraud prevention resulted in \$26 of cost avoidance and savings for taxpayers, a 63 percent increase over FY2011.
- For every hour spent on an investigation, \$328 of fraud was identified, an increase of 47 percent over FY2011.

## **OFFICE OF INSPECTOR GENERAL**

The Office of Inspector General (OIG), created in 1972, is a criminal justice agency in the Department of Human Services (DHS). The primary duty of the OIG is to investigate cases of suspected fraud within DHS. OIG is statutorily required under MCL 400.43b to perform the following activities:

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

### **OIG MISSION STATEMENT**

The mission of the OIG is to assist 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 OIG duties
- Highest possible standards of professional conduct
- Innovation from all levels of the organization
- Support for the accuracy and integrity of all DHS programs

OIG is accountable by the people of the State of Michigan for maintaining the highest standards of integrity and good moral character. As members of the OIG, we 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.

## **KEY PRINCIPLES**

The key principles of the OIG are Responsibility, Excellence, Integrity and Communication.

- Responsibility - OIG employees shall dedicate themselves to treating all people with respect, fairness and compassion.
- Excellence - OIG employees shall know the laws, rules and policies that will aid them in performing their duties and serving the public.
- Integrity - OIG employees shall recognize that the cooperation of all criminal justice and public agencies is essential for effective, efficient and responsive investigations and enforcement.
- Communication - OIG employees shall recognize the accomplishments of those who make significant contributions toward our mission, values, goals and objectives.

## OIG OPERATIONAL TERMINOLOGY

*OIG is involved in many areas of the department that affect program integrity. Included are the following operational activities:*

**Claims Establishment:** Make recommendations directly to DHS concerning all aspects of the claims establishment process. Responsibilities include program content development, policy, procedures, program monitoring and measurement of outcomes and program advocacy.

**DHS/Michigan State Police (MSP) Match:** Pursuant to MCLA 400.10(a)(b)(c), DHS partners with the Michigan State Police to identify public assistance recipients who are not eligible due to a criminal justice disqualification. As supported by DHS policy and Food and Nutrition Services (FNS) regulation, these identified recipients become ineligible to receive certain public assistance program benefits.

**Electronic Benefit Transfer (EBT):** Food assistance and cash assistance benefits are electronically transferred to an account accessible by the client debit card called the Michigan Bridge card. Transactions are analyzed for fraud trends to include out-of-state purchases for more than 30 days, non-recipients using Bridge cards, and other patterns of Food Assistance Program (FAP) trafficking.

**Estate Recovery Fraud Investigations:** The OIG collaborates with the Department of Community Health to investigate potential fraud by individuals who have received long-term-care Medicaid payments. The estates of individuals who have received Medicaid payments fraudulently are subject to repayment of those benefits.

**Fraud Hotline:** Fraud referrals that come through the toll free fraud number or website go to a designated fraud coordinator in each local office. The referral is routed to the appropriate caseworker and manager for review and OIG is notified directly if the referral meets certain priority criteria.

**Front End Eligibility (FEE):** DHS caseworkers may request an investigation by an OIG agent when applications or re-certifications for public assistance contain suspicious or error-prone information. FEE agents investigate, substantiate or refute discrepancies and suspicious activities; the results may involve an assistance case not being opened, reduced benefits issued and/or case closure.

**IP Locator Initiative:** The Internet Protocol (IP) Locator Initiative was created to give DHS-OIG the capability to identify the physical location of individuals using MiBridges to apply for Michigan public assistance benefits online. This capability increases the chances of catching potential and current recipients who are residing outside Michigan and are applying to receive initial or additional public assistance benefits.

**LEIN (Law Enforcement Information Network):** OIG, through its terminal agency coordinator (TAC), is responsible for the integrity and security of sensitive and confidential information contained in the LEIN database. OIG provides extensive training for LEIN statewide operators, maintains the LEIN policy and procedure manuals for LEIN use by DHS, and investigates LEIN violations.

**Lottery Match:** Through a partnership with the Michigan Bureau of Lottery, DHS matches known lottery winners with active public assistance recipients. When lottery winnings and active recipients are identified, appropriate case action is taken to affect the continued eligibility of the recipient per DHS policy.

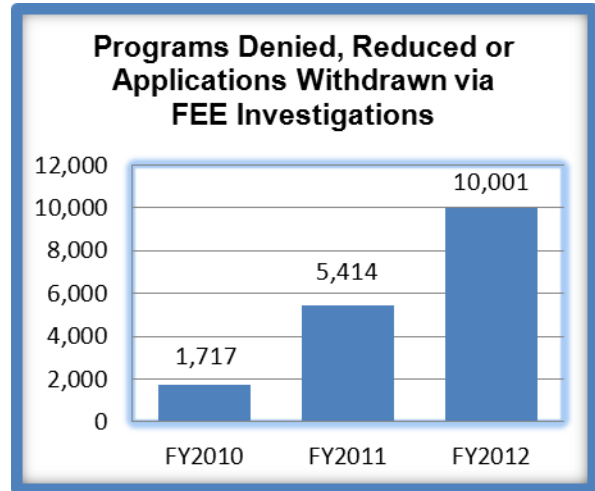
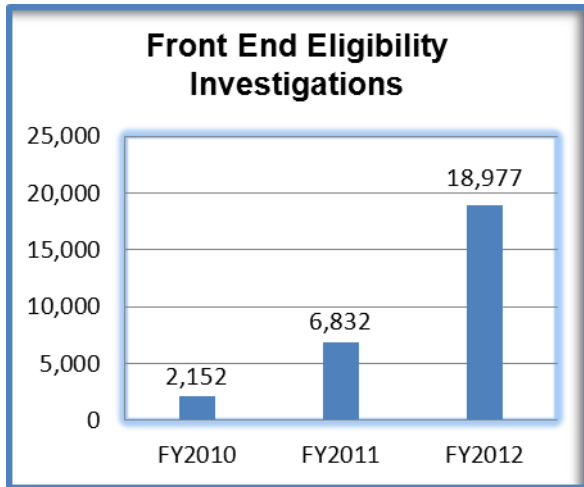
**Policy Recommendations:** OIG provides a leadership role in recommendations for policy changes to enhance prevention and detection of fraud by the continuous review of proposed and current department policy.

**Provider Fraud:** Intentional false billings or intentional inaccurate statements by a provider in areas such as a child development and care, foster care, adult home help and adoption subsidy, as well as contractors or other related businesses.

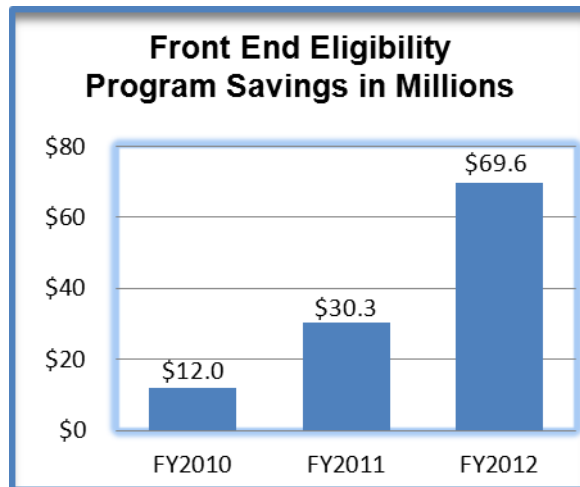
**Recipient Fraud:** An intentional program violation (IPV) by a person on or applying for public assistance. IPV occurs when there is intentional deception or misrepresentation, with the knowledge that the deception could result in the receipt of unauthorized benefits.

## FRONT END ELIGIBILITY (FEE) – Fraud Detection and Prevention

The OIG conducts investigations when clients are suspected of misrepresenting their eligibility for public assistance. Front end eligibility (FEE) investigations target cases in which DHS field staff have requested an investigation when assistance applications or other submitted documentation appear to contain suspicious or error-prone information. In focusing on fraud prevention through FEE in Michigan, OIG ensures public assistance program integrity and increased savings for the taxpayers.



Working toward fraud prevention, OIG FEE agents conducted 18,977 investigations in FY2012 and identified over \$69 million in cost savings. This was a result of 62,132 investigative hours, or \$1,120 per FEE investigation hour. Investigations by OIG agents have resulted in over \$111.8 million in program savings over the last three-year period.



## **2012 FEE (Fraud Prevention and Detection) Investigation Highlights**

### *Client Admits Bridge Card Used for Parents' Business*

A FEE referral was received alleging a client was working "under the table" at her parents' restaurant and allowing them to use her Bridge card (FAP benefits) for business-related purchases. The client was questioned by the OIG agent regarding several large transactions being made on a recurring basis at the same location. The client admitted she allowed her parents to use her Bridge card to purchase food for the restaurant for well over 1½ years. She also purchased items for her parents' restaurant. She admitted that diapers and miscellaneous items were purchased for the client's children in lieu of Bridge card usage. The client's case was closed as a result of the investigation and criminal charges were pursued. Annual FAP Cost Savings: \$8,016.

### *Medicaid (MA) Savings*

A client applied for medical assistance based on being disabled. When interviewed by an OIG agent, the client admitted he was not disabled and was currently employed. In addition, the client failed to report multiple vehicles, boats and trailers registered to him and his wife according to a Secretary of State database search. The OIG agent also discovered two properties that were also owned but not reported by the subject. As a result of the client's income and assets, MA benefits were denied by the specialist. One-time MA Cost Savings: \$41,632.

### *State Emergency Relief (SER) Savings*

A client applied for a furnace replacement under the SER program. A referral was made to OIG after the eligibility specialist discovered that the furnace replacement quote was issued by a person with the same name as the client's husband. The husband was reported by the client to be residing outside the home. Through a FEE investigation, the client admitted her husband had resided in the home since May 2011. The FEE investigation also resulted in the discovery of current and past employment for the client and her husband. During the interview, the client disclosed her current hourly wage of nearly \$18/hour, which had not been previously reported. State Emergency Relief Program (SER) Savings: \$3,715.

### *Expenses Exceed Income*

A FEE referral was made after a case worker questioned a client regarding funds to move into a new residence with no income being listed on their assistance application. When contacted by the OIG agent, the client stated she had been employed for the past three months. The agent also discovered that the client's husband was also receiving unemployment compensation benefits during the time of their move and was currently employed. The client submitted documentation to her eligibility specialist and requested an immediate case withdrawal. Annual FAP Cost Savings: \$6,576. Annual MA Savings: \$25,680.

### *Anonymous Tip*

An anonymous tip received by OIG indicated that a client was ineligibly receiving benefits by not reporting business ownership, residence and living arrangements. Benefits were not issued after the OIG investigation confirmed that the client was not residing at the client's reported residence and that the client owned a business. Annual FAP Savings: \$12,624. Annual MA Savings: \$35,952.



## **Benefit Trafficking Unit (BTU)**

Public assistance trafficking is the buying and selling of benefits for cash or other ineligible items including: tobacco, alcohol, firearms, drugs and gambling. Violations of the Food Assistance Program occur when food assistance is redeemed for cash or offered for sale in person or on the Internet, or when unauthorized items are bought or sold. Medicaid Assistance trafficking includes prescription forgery, prescription theft and narcotics “shopping” with multiple prescribers/pharmacies.

### **2012 BTU Highlights**

#### *Store Owner Arrested*

A tip was received alleging the owner of a party store was purchasing Bridge Cards. The OIG investigation showed the owner was in fact buying Bridge cards from at least a dozen recipients. The owner’s method of operation was to purchase the Bridge cards for cash. The owner and his wife would take the trafficked Bridge card to a grocery store and purchase items to resell at his party store or share with his family. The investigation also uncovered the owner’s wife was receiving Medicaid for her son and had significantly underreported her spouse’s income to DHS. She failed to inform the agency he actually owned the store and was grossing \$200,000 a year. A search warrant was executed on the party store and numerous Bridge Cards were recovered, as well as two unregistered firearms. The owner and his wife were arrested and charged with food stamp fraud over \$1,000. Both have pled guilty in circuit court.

#### *Business Owner Exposes Her Own Scheme*

DHS OIG received a complaint from an individual who declared that she had been purchasing Bridge Cards from recipients and they had cancelled them before she could use them. Although she gave a false name, OIG agents quickly identified her and discovered that she had been purchasing cards for several years from numerous recipients in order to finance her catering business. OIG agents also uncovered a connection to another area businessman who was purchasing Bridge Cards to supply products for his restaurants. The investigation identified over 100 recipients involved in the scheme and \$127,000 in Bridge Card fraud. Over \$75,000 in FAP benefits have been recovered as a result of the investigation. Felony criminal charges are pending against the business owners and several of the recipients.

#### *Social Media Sites Used To Commit Fraud*

A subject was selling Bridge Cards for cash on Craigslist. An undercover agent was able to purchase \$125 in food benefits for \$60. The subject presented the Bridge Card that was for sale, along with the pin number. As a result of the investigation, the subject was disqualified from the Food Assistance Program.

A Facebook client was identified by the OIG Trafficking Unit soliciting the purchase of food benefits. The subject posted, “I’m thinking.....I NEED FOOD STAMPS WHO GOT THEM FOR SALE.” An undercover OIG agent approached the person with an offer of an undetermined amount of benefits for sale. When the agent approached the person, an agreement was reached to sell \$200 worth of food stamps for \$100. When it came time to complete the sale the agent identified himself and the subject confessed to the solicitation. He was subsequently disqualified from the Food Assistance Program.

## Special Investigations Unit (SIU)

The SIU investigates the most complex complaints involving criminal employee wrongdoing, multiple suspects, co-conspirators, multiple jurisdictional venues and program financial and service contracts and providers. The SIU develops, recommends and advocates ways and means for DHS to deter or detect fraud through internal control development and departmental policies and procedures.

### **2012 SIU Highlights**

#### *State Employee Investigated for Fraud*

OIG received a complaint alleging a newly hired DHS employee was using a DHS client's identity to apply for credit cards in the client's name. The SIU agent determined that the stolen identities belonged to a deceased friend and a relative of the DHS employee. Using numerous Internet search programs and verification sources, it was determined the employee applied for and received a credit card in the deceased client's name at the employee's home address. OIG's investigation resulted in seven felony charges being issued against the employee. The (former) employee pleaded no contest to six felony charges and was convicted of three counts of identity theft, two counts of using a computer to commit a felony and one count of computer-unauthorized access.

#### *City of Detroit*

OIG received a referral alleging that a former city of Detroit Department of Human Services (not connected to Michigan DHS) principal social worker received assistance through the department for which the subject was not eligible. It was alleged that, when applying for assistance, the subject failed to disclose income from her employment and all income received from the city of Detroit. The city of Detroit DHS purchased a vehicle, furniture, electrical work, appliances and camp program assistance for the subject totaling \$18,199.15. The OIG agent and the U.S. Department of Health and Human Services' OIG conducted a joint investigation into the allegations. The subject was charged by the attorney general's office with one count of felony false pretense, \$1,000 to \$20,000.

#### *Crime Stoppers Tip - Day Care Provider Fraud*

OIG received a complaint from Crime Stoppers of Michigan in which it was alleged that a client's day care provider had a felony conviction and was billing for services using an alias name. The investigation confirmed the provider used an alias name to bill the state of Michigan for two eligible families and received \$31,170 in child care payments. The investigation also revealed that the provider had two active Food Assistance Program (FAP) cases and had fraudulently received \$10,766 in program benefits. The case was referred to the county prosecutor's office for welfare fraud charges in the amount of \$41,936.

#### *Provider Fraud*

A client fraudulently applied to be a day care provider using the name of her sister who resided in Washington, D.C. The SIU agent obtained identification records from both Michigan and Washington, D.C., for both parties and confirmed they were one and the same. The investigation also confirmed that the client misrepresented her employment status to be eligible for the day care benefits. As a result of this investigation the client was charged and convicted of welfare fraud, placed on probation for 18 months and ordered by the circuit court to pay full restitution to the state of Michigan in the amount of \$62,726.



## Investigative Analytics Unit (IAU)

OIG's IAU is responsible for providing systematic and analytic support for ongoing investigations and fraud referrals. Examples of IAU functions and responsibilities include:

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| <ul style="list-style-type: none"><li>• Management Reports for Performance Measurement</li><li>• Executive Office Reports – Scheduled and Upon Demand</li><li>• Out-of-State Bridge Card Transaction Project</li><li>• Public Assistance Reporting Information System (PARIS) Match Fraud Referrals</li><li>• IP Address Locator Project</li><li>• Lottery Match Analysis</li></ul> | <ul style="list-style-type: none"><li>• County Jail Match Analysis</li><li>• Fugitive Felon Analysis</li><li>• Multiple Bridge Card Replacement Analysis</li><li>• FAP Trafficking Data Mining</li><li>• MA Fraud, Waste and Abuse Data Mining</li><li>• FNS Client Integrity Referral Analysis</li><li>• Bridge Card Approved Store Owners on FAP</li></ul> | <ul style="list-style-type: none"><li>• Internal Audits on Fraud Investigation Dispositions</li><li>• Electronic Archiving of Dispositions Project</li><li>• FNS Management Evaluation Analysis/Liaison</li><li>• OIG's Designated Staff Person for IRS Data</li><li>• FOIA Request Liaison</li><li>• OAG Audit Liaison</li></ul> |
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### **Public Assistance Reporting Information System (PARIS)**

OIG-IAU utilizes the PARIS Interstate Match as an investigative tool to identify individuals who may be receiving public assistance in two or more states concurrently. The match data provides a concise description of the individual's circumstances in both states at the point of the match, as well as contact information. OIG actively investigates individuals identified in the PARIS match for receiving public assistance benefits in another state. This often results in the assistance case being closed in Michigan and a warrant request for welfare fraud. The utilization of the PARIS Interstate Match has been instrumental in lowering public assistance program expenditures by removing ineligible non-resident recipients.

#### *PARIS Match Case*

OIG received a PARIS match indicating a DHS client was receiving welfare benefits in Mississippi and Michigan. An OIG investigation revealed that all recent contacts with Michigan DHS were via phone and email, that the client was receiving public assistance in both Michigan and Mississippi concurrently, and that the subject resided in Mississippi. A felony warrant was issued and the subject returned to Michigan to face criminal charges. The subject pled guilty, was ordered to pay \$31,278 in restitution for cash, food and medical assistance benefits, and was sentenced to 4 months 15 days in the county jail. Furthermore, the subject was disqualified from the cash program for two years and the food assistance program for 10 years for receiving dual assistance.

### **Bridge Card-Food Assistance Benefits Cashed Outside Michigan**

OIG's IAU utilizes data analysis to identify households that are redeeming FAP benefits out of Michigan on a regular basis. In FY2012, OIG investigated over 1,700 households identified as potentially having left Michigan while continuing to receive benefits. Of these investigations, OIG established claims of over \$3.1 million as a result of this project. As a result of this match, there have been additional program savings to the state, including stopping Medicaid monthly capitation fees which average \$438/month per person.

#### *Out of State Match Highlight*

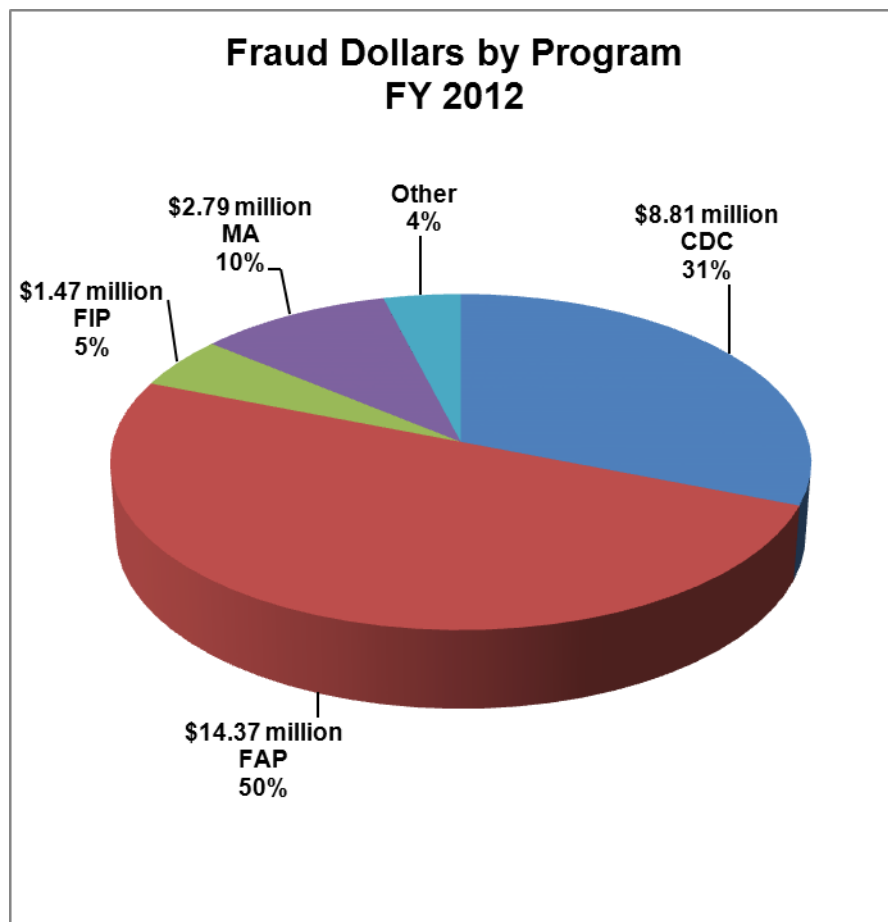
An Out of State match showed a DHS client had used his/her Bridge Card in the Colorado exclusively for several months. The OIG investigation confirmed that the client had moved to Colorado. OIG's investigation resulted in the closure of the client's FAP case. Annual FAP Cost Savings: \$6,312.

## PUBLIC ASSISTANCE PROGRAM IMPACTS

OIG identified over \$28 million in fraud during FY2012 within multiple Michigan public assistance program areas. During FY2012, 1,103 warrants were authorized by county prosecutors. Investigations by OIG agents have uncovered over \$63.9 million in fraud during the last three years.

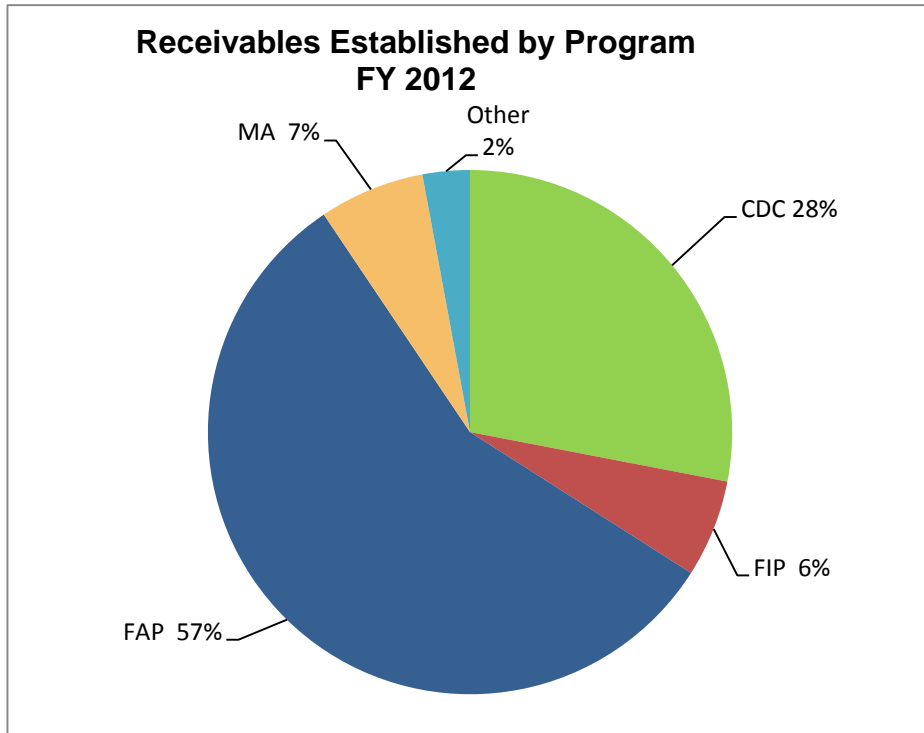
Fraud in the Food Assistance Program (FAP), formerly known as food stamps, accounted for 50 percent of Michigan's public assistance fraud during FY2012. OIG investigated 9,907 fraud cases in the FAP program alone, with 7,702 fraud investigative dispositions and 975 criminal warrants issued for a fiscal year total of over \$14.3 million dollars in fraud found.

During the past three years, OIG has investigated 16,516 fraud cases in the FAP. The fraud found in FY2012 was \$14.2 million for a three year total of \$26.6 million.



## FRAUD RECEIVABLES ESTABLISHED

There were \$19.7 million of fraud receivables established for FY2012. OIG established \$11.3 million in fraud receivables for the FAP program alone, which accounts for 57 percent of all receivables posted for FY2012.



**CDC = Child Development and Care Program  
FAP = Food Assistance Program  
FIP = Family Independence Program  
MA = Medicaid Assistance Program  
Other = Adult/Children's Services, State Disability, State Emergency Relief**