



## **FY 2014 Annual Report**

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

**Nick Lyon, Interim Director of Human Services  
David Russell, Acting Inspector General**



# Executive Summary

## **FRAUD DETECTION AND PREVENTION**

### **In FY2014, Office of Inspector General (OIG) agents:**

- Determined \$126.8 million of fraud, cost savings and established program disqualifications.
- Completed 8,418 fraud investigative dispositions.
- Completed 39,014 front end eligibility (FEE) investigations, a 56 percent increase over FY2013.
- Identified \$93.6 million in cost avoidance in FEE investigations, a 22 percent increase over FY2013.
- Established an additional \$12.8 million in cost savings from intentional program violation (IPV) disqualifications.
- Identified \$20.4 million of program fraud.
- Identified \$261 of fraud per investigative hour.
- Three-year program savings for taxpayers in FEE of \$239.8 million.

## **SPECIAL INVESTIGATIONS UNIT (SIU)**

### **In FY2014, the Special Investigations agents:**

- Completed 351 investigations, a four percent increase over FY2013.
- Determined \$4.3 million of provider, contractor, recipient/client and employee fraud.

## **BENEFIT TRAFFICKING UNIT (BTU)**

### **In FY2014, Benefit Trafficking agents:**

- Completed 1,939 benefit trafficking investigations, a 6-percent increase from FY2013.
- Determined \$2.4 million in fraud from trafficking.
- Established \$2.6 million in receivables from trafficking, an 8-percent increase from FY2013.

## **COST EFFECTIVENESS AND PRODUCTIVITY**

### **In FY2014, Cost Effectiveness:**

- Every dollar spent on fraud prevention resulted in \$26 of cost avoidance and savings for taxpayers.
- For every hour spent on an investigation, \$261 of fraud was identified.

Office of Inspector General - Executive Summary  
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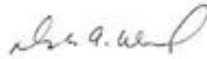
The Office of Inspector General's primary role to investigate fraud – whether in public assistance benefits or among service providers, contractors or employees – produces impressive results. In this Fiscal Year 2014 Annual Report, you will note the OIG's investigative staff received and screened 51,000 fraud, waste and abuse referrals and complaints for investigation and completed over 47,000 fraud investigations. This resulted in \$94 million in cost avoidance and over \$20 million in fraud found. OIG's efforts also resulted in over \$20 million owed to the state of Michigan in restitution and fraud receivables and an additional \$13 million in fraud disqualifications for public assistance benefits. Michigan taxpayers can be confident the public resources allocated to OIG produce a solid return on investment. These outcomes are the result of hard work, ingenuity and efficiencies by OIG's employees.

The OIG leadership team is honored to release the results of the OIG's accomplishments for Fiscal Year 2014. We thank the OIG's dedicated employees, fellow state employees and all citizens who reported suspected fraud, waste, abuse and misconduct. The citizens of Michigan expect accountability and integrity in state government, and as you will read in the following pages, the OIG has met those expectations.

Sincerely,



David Russell  
Acting Inspector General



Douglas Woodard  
Director of Field Operations

## **STATUTORY REQUIREMENT FOR OIG**

The 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 OIG**

OIG is accountable to 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 our daily decisions will reflect on the future of our organization as a whole.

- 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

## **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 ACTIVITIES

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

**Claims Establishment:** OIG makes 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.

**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.

**Employee Fraud:** Part of the OIG mission and activities is to conduct criminal and administrative investigations into State of Michigan employees. Investigations have included embezzlement, failure to report state and or outside employment when receiving state public assistance and creating and maintaining fictitious public assistance cases. Employees that have committed a criminal offense are referred to the Michigan Attorney General's Office for review of criminal charges.

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

**Fraud Hotline:** Fraud referrals that come through the toll-free DHS 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 Project:** The Internet Protocol (IP) Locator Project was created to give 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 clients who are residing outside Michigan and are improperly applying for public assistance benefits in Michigan.

**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/clients. When lottery winnings and active clients are identified, appropriate case action is taken regarding the continued eligibility of the client.

**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, and adoption subsidy, as well as contractors or other related businesses.

**Recipient/Client Fraud:** An 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.

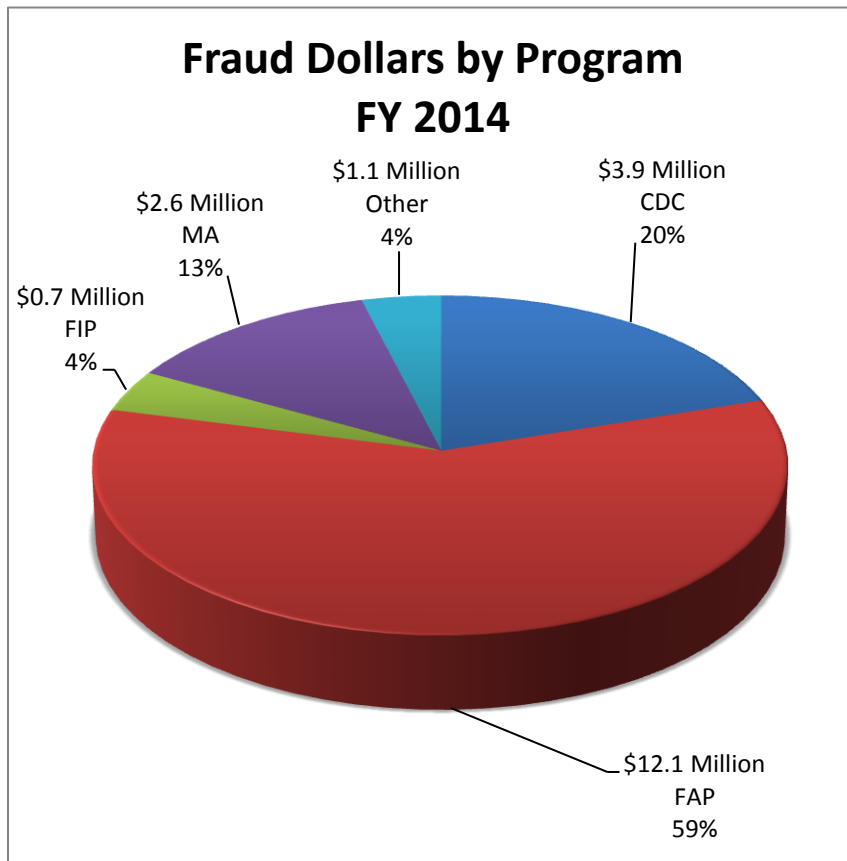
**Social Media:** OIG actively monitors social media sites such as Facebook, Craigslist and Twitter for FAP trafficking solicitations. OIG's Benefit Trafficking Unit conducts investigations on these hits.

## PUBLIC ASSISTANCE PROGRAM IMPACTS

OIG determined over \$20.4 million in fraud during FY2014 within multiple Michigan public assistance program areas. During FY2014, 411 felony warrants were authorized by county, state and federal prosecutors. Investigations by OIG agents have uncovered over \$72.4 million in fraud during the last three years.

### Program Highlights

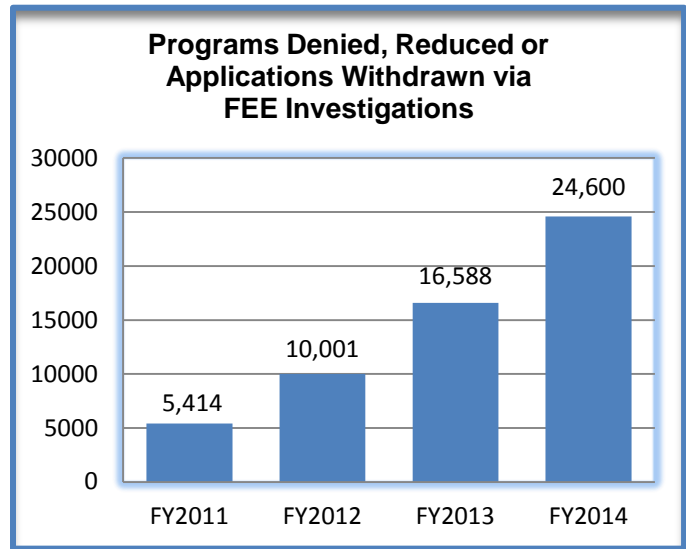
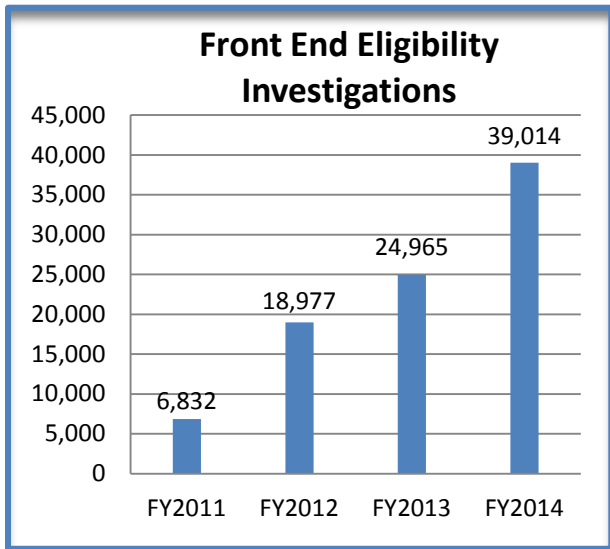
- Fraud in the Food Assistance Program (FAP) accounted for 59 percent of Michigan's public assistance fraud during FY2014.
- OIG investigated 8,821 fraud cases in the FAP alone, with 7,443 fraud investigative dispositions and 343 criminal warrants issued for a fiscal year total of over \$12.1 million in fraud found.
- OIG completed 459 Child Development and Care (CDC) cases resulting in \$3.9 million in fraud found for the Michigan Department of Education (MDE).
- OIG completed 887 investigations of Medicaid beneficiary fraud resulting in \$2.6 million in fraud found.



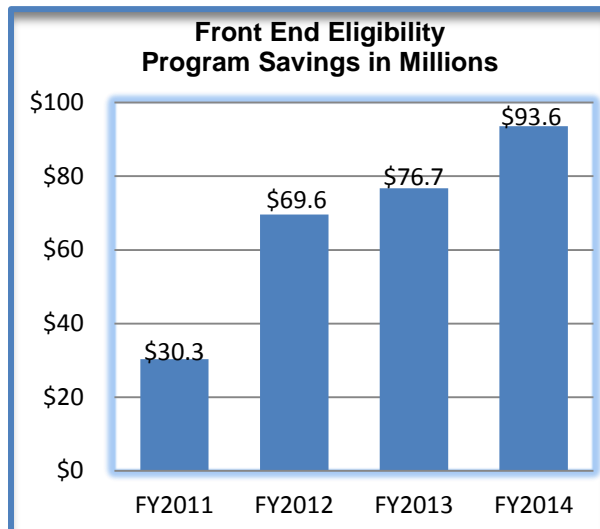
CDC = Child Development and Care Program  
FAP = Food Assistance Program  
FIP = Family Independence Program  
MA = Medicaid Assistance Program  
Other = Adult/Children's Services, State Disability, State Emergency Relief

## FEE: EARLY FRAUD DETECTION AND PREVENTION

The OIG conducts investigations when clients are suspected of misrepresenting their eligibility for public assistance. Front End Eligibility (FEE) investigations are initiated when assistance applications or other submitted documentation appear to contain suspicious or error-prone information. In focusing on fraud prevention through FEE, OIG ensures public assistance program integrity and increased savings for the taxpayers.



Working toward fraud prevention, OIG agents conducted 39,014 investigations in FY2014 and identified over \$93.6 million in cost savings. Investigations by OIG agents have resulted in over \$239.8 million in program savings for taxpayers over the last three-year period.



## 2014 FRAUD DETECTION AND PREVENTION INVESTIGATION HIGHLIGHTS

### ***Group Composition***

OIG received a fraud complaint alleging client's household members were receiving benefits in Tennessee. OIG investigation revealed that the client's four children/grandson were receiving FAP and MA benefits in Tennessee. The client attempted to conceal their residence by informing the OIG agent that her children went to school in "another part of town". After receiving verifications that the children were not in the identified schools, the agent obtained verification from schools the children actually attended in Tennessee. OIG also verified that the client was receiving public assistance in Tennessee. Client's Michigan case was closed and OIG identified \$37,051 in benefits received fraudulently. A warrant request was submitted to the Michigan Attorney General.

### ***Unreported Business Ownership***

A citizen complaint alleged a client received FAP while she owned her own restaurant. Subsequent OIG investigation identified that in addition to the restaurant, the client failed to report that she resided with her husband and that her husband owned an additional business. Client subsequently pleaded guilty to felony welfare fraud, and was sentenced to 48 months of probation, fines and costs, and restitution to DHS in the amount of \$15,206.

### ***Multiple Social Security Numbers***

OIG received a complaint alleging a client listed her husband as her employer on an application for public assistance. During the investigation, it was discovered that the client used two different Social Security numbers; one was used exclusively to request public assistance from Michigan. OIG further discovered that the client owned a time-share property. Upon reviewing the time-share purchase documentation, it was discovered the client used her other Social Security number. She also listed "nursing" as her career and listed her real residence in West Bloomfield. Client's bank records were subpoenaed and identified large

deposits being made into her account. As a result, the client's public assistance case was closed and OIG is requesting criminal prosecution for \$42,000 in FIP, FAP and MA program fraud.

### ***Man in the Home***

A DHS worker submitted a FEE referral after it was noted that while the client's boyfriend was ordered to pay child support for five children, there was no record of support being paid. The FEE investigation verified that the client did not inform DHS that the children's father actually resided in the home, was employed, and provided financial support to the household. The FEE investigation was expanded into a full fraud investigation, which verified that the client received child care and cash assistance for six years while failing to report her boyfriend living in the home or his income. OIG determined over \$93,000 of fraud over the six year period.

### ***Unreported Assets***

OIG received a FEE referral questioning a client's statement that they worked for a restaurant earning \$500 per week. The FEE investigation revealed that the client actually owned the restaurant, six homes valued over \$377,000 and five vehicles, which he failed to report on his public assistance application. As a result of the investigation, the client was denied FAP and MA benefits resulting in annual cost avoidance of \$19,524.

### ***Unreported Income in Home***

A FEE investigation was initiated from OIG's Investigative Analytics Unit. The FEE investigation revealed that although the father of the children was listed as an "absent parent" on the application, he had lived in the client's home and was gainfully employed for several years. The father earned income which would have affected the household's FAP, CDC, and FIP benefits. A warrant was authorized for welfare fraud in the amount of \$30,509.



## BENEFIT TRAFFICKING UNIT (BTU)

### ***Definition of Trafficking:***

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 (FAP) occur when food assistance is redeemed for cash or offered for sale in person or via the Internet, or when unauthorized items are bought or sold with FAP. Medicaid Assistance trafficking includes prescription forgery, prescription theft and narcotics “shopping” with multiple prescribers/pharmacies.

## FY 2014 BTU HIGHLIGHTS

### ***Party Store FAP trafficking***

In 2012, BTU agents investigated circumstances around a grocery store that was previously disqualified by USDA-Food & Nutrition Services (FNS). The store owner had been the subject of a previous FNS administrative investigation. As a part of the OIG investigation, it was discovered that the store owner and a DHS public assistance recipient/client were living together and had children in common. It was determined that the client received \$165,000 in state assistance (cash) benefits to which she was not entitled because the store owner/father of the children had not been reported as being in the household. The client was charged with welfare fraud and pleaded guilty. At the time of prosecutorial review, the prosecutor did not feel there was enough direct evidence to charge the boyfriend/store owner for welfare fraud. However in 2014, the store owner pleaded guilty to an unrelated felony insurance fraud with an agreement that he would also accept joint responsibility for the \$165,000 owed to DHS. This was to be in exchange for no further criminal charges in the case. During the plea negotiations it was learned that although the store owner was a US citizen, he was not natural-born and is also a citizen of Israel. Due to his criminal conviction, in November 2014, he was permanently deported back to Israel.

### ***Health Care Providers FAP Trafficking***

As a result of a Welfare Fraud Hotline referral, OIG determined an unlicensed adult foster home’s employees were using the home’s residents’ FAP benefits for their own personal use. The investigation revealed that two employees, who were authorized representatives for the FAP residents in the home, redeemed the benefits without providing food to the intended recipient (the DHS client). The investigation further revealed one

FAP client was being tube fed for all of their daily nutrition needs from August 2010 to August 2014. The client’s doctor verified that all of the individual’s nutrition was provided through their medical benefits. Due to the client’s medical condition, they were unable to eat food normally purchased in stores. As a result, \$9,490 in FAP benefits were repaid in full by both foster home providers/employees.

### ***Prescription Fraud Abuse***

A Medicaid trafficking suspect attempted to redeem fraudulent prescriptions at pharmacies within the metro Detroit area. This was reported to OIG for investigation. The assigned OIG agent was able to obtain time sensitive information, such as witness statements, positive identification of the suspect and forged documents used in the crime. The subject was arrested and ultimately accepted a plea agreement for fraud. The subject is currently severing a two-year probation period.

These types of Medicaid fraud investigations have had positive impact on the pharmacies and physicians whose information was used to produce fraudulent prescriptions. Within weeks of the OIG investigations, pharmacists in the affected area reported a dramatic drop in the number of forged prescriptions presented them on a daily basis. The pharmacists believe people now know what will happen if they attempt to fill a forged prescription at the pharmacy. This is based on successful investigation and conviction rates OIG has been able to produce in cooperation with prosecutors. Physicians are also seeing a dramatic drop in the number of fraudulent prescriptions filled using their identification after an investigation has been completed.

## SPECIAL INVESTIGATIONS UNIT (SIU)

The SIU investigates the most complex complaints filed with OIG. They involve criminal employee wrongdoing, multiple suspects, co-conspirators, multiple jurisdictional venues, program financial and service contracts as well as providers. The SIU develops, recommends and advocates methodology for DHS to deter or detect fraud through internal control development and departmental policies and procedures.

### FY 2014 SIU HIGHLIGHTS

#### ***State Employee Convicted for Fraud***

OIG received a fraud complaint from Ionia County DHS that alleged a DHS employee failed to provide full and accurate household information when completing paperwork for a family member applying for public assistance. The OIG agent's investigation determined that the employee misrepresented and omitted information to help make her family member eligible. OIG determined the family member improperly received Medicaid, FAP, and State Emergency Relief (SER) benefits. The DHS employee pleaded *No Contest* to one felony charge, Welfare Fraud over \$500, and was ordered to pay restitution of \$39,980 and court costs.

#### ***Provider Fraud***

OIG received a fraud referral that a Kalamazoo County licensed Child Development and Care (CDC) center was billing the State of Michigan for child care hours when children were not in their care or were no longer utilizing the center. The OIG Agent's investigation determined that the owner of the center billed the State of Michigan for 177,120 non-documented child care hours. The subject pleaded guilty to a felony charge of False Pretenses and was ordered to repay \$440,887 in restitution, court costs/fines. The subject was sentenced to three months in jail.

#### ***Divestment/Estate Recovery***

OIG received a fraud referral from the Michigan Department of Community Health (DCH) regarding divestment of assets in order to become eligible for

Medicaid. DCH alleged that the decedent's son made a transfer of real property for less than the fair market value to remove it as a potential asset source. (Household assets are considered by DHS when determining eligibility for certain medical programs. Often people will divest, deflate the value, or simply not disclose an asset so as not to have to liquidate it to cover medical expenses.) The OIG investigation revealed that the son also failed to accurately reporting the transfer of real property by the decedent to other family members. OIG determined \$24,004 in Medicaid fraud. The son signed a repayment agreement for the full restitution amount.

#### ***Adoption Subsidy***

The DHS Adoption Subsidy Unit (ASU) requested OIG investigate allegations of fraud by an adoptive mother. It was alleged that although the mother had her parental rights terminated for her adopted children (and gave the children up), she continued to receive monthly checks intended for the care of those children. The OIG investigation revealed the mother failed to contact the ASU and notify them of her rights being terminated. The mother pleaded guilty to welfare fraud over \$500 and failure to inform over \$500, both felonies. The mother received five years of probation and was ordered to repay \$24,748 in restitution plus fines and court costs.

## COOPERATIVE DISABILITY INVESTIGATIONS (CDI) UNIT

In August 2014, OIG partnered with Social Security Administration-OIG to create a Cooperative Disability Investigations (CDI) program in Michigan. CDI aims to combat fraud by investigating questionable statements and activities of claimants, medical providers, interpreters or other service providers who facilitate or promote disability fraud. CDI units investigate individual disability claims and identify lawyers, doctors, translators, or other third parties who facilitate disability fraud. The results of these investigations are presented to federal and state prosecutors for consideration of prosecution and to the state's Disability Determination Services (DDS) for their use in making timely and accurate disability determinations. The CDI unit supports the strategic goal of ensuring integrity of the Social Security programs with zero tolerance for fraud and abuse. The unit also serves to deter fraud in related federal and state benefit programs. Any person deemed eligible for Supplemental Security Income (SSI) is automatically made eligible for Medicaid. OIG's participation in the CDI unit realizes savings to Michigan taxpayers for stopping both SSI and Medicaid fraud.

### CDI UNIT HIGHLIGHTS

#### ***“Bad Back” but Playing Football***

A minor child was receiving SSI for back problems, allegedly suffered in an automobile accident. However, the CDI unit obtained video of the minor playing football. It was found that the mother completed a form for the football league that requested that the son be listed as a coach (rather than a player), but allowed to play. The sports physical indicated no physical problems. The claim was denied, saving tax payers over \$80,000.

#### ***“Pay my Daughter, Please”***

A partnering law enforcement agency alerted the CDI unit that they interviewed the daughter of a subject of a current CDI investigation. The daughter stated that her mother (the suspect) received Social Security Administration (SSA) disability benefits but was working. The daughter added that she received checks in her name from various companies, even though the checks were for work performed by her mother. She stated that this was because the mother did not want SSA to know that she was working. The investigation results are being reviewed for departmental action.

#### ***Claimant and Provider Scam***

The DDS requested an investigation on a subject who recently applied for SSA disability benefits. The reason for the request was that the monthly medical reports provided by the subject's primary care physician contained repetitious language each month. Not only did the language in each monthly medical report remain the same, but the subject's vital signs often remained the same. A check of a sample of other claimants (those previously approved or denied for benefits), who used this physician showed the same results. The language used was similar, if not exact, from one claimant to another. Most of the claimants received prescriptions for pain medication from the physician on a monthly basis. The subject of the investigation was identified to have been terminated from the employment of Delta Airlines (as a baggage handler) due to substance abuse. The subject was interviewed and acknowledged that the physician in question spent just a few minutes with him every month and did not do any evaluation beyond asking a few questions. The claim was denied, saving taxpayers over \$110,000.

## INVESTIGATIVE ANALYTICS UNIT (IAU)

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

- Management Reports for Performance Measurement
- Public Assistance Reporting Information System (PARIS) Match Analysis
- USDA-FNS Client Integrity Referral Analysis
- OIG's Case Management System (MIGS) Maintenance and Enhancement
- County Jail Match Analysis
- USDA-FNS Management Evaluation Analysis/Liaison
- Executive Office Reports: Scheduled and Upon Demand
- Lottery Match Analysis
- In-house Recoupment Specialist Resource
- Michigan's Enterprise Fraud Detection System: Business Development
- Fugitive Felon Analysis
- OIG's Designated Staff Person for IRS Data
- Out-of-State Bridge Card Transaction Project
- Multiple Bridge Card Replacement Analysis
- Office of Auditor General (OAG) Audit Liaison
- IP Address Locator Project
- FAP Trafficking Data Mining
- Law Enforcement Liaison for Trafficking Investigations
- Medicaid Fraud, Waste and Abuse Data Mining
- Social Media Analysis
- DHS Policy Analysis

### ***Public Assistance Reporting Information System (PARIS)***

OIG-IAU utilizes the national PARIS Interstate Match as an investigative tool to identify individuals who may be concurrently receiving public assistance in two or more states. 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 clients. In FY14, PARIS matches also resulted in \$3.5 million in annual cost avoidance. The investigations also identified over \$400,000 in fraud.

### ***PARIS Match Highlight***

OIG received a PARIS match indicating a DHS client was receiving welfare benefits in both Kentucky and Michigan. An OIG investigation confirmed this. As a result of this investigation, the client was disqualified from FAP for 10 years for receiving dual assistance. They also agreed to repay the \$12,571 in benefits that had been fraudulently received.

### ***Michigan's Enterprise Fraud Detection System (EFDS)***

The OIG Investigative Analytics Unit has been working with Michigan's Department of Technology, Management and Budget (DTMB), as well as its vendor, SAS Inc., to make DHS the first department utilizing Michigan's Enterprise Fraud Detection System (EFDS) for the Food Assistance Program. This DTMB system utilizes and leverages state owned data to identify potential fraud. During the first year of development and testing, OIG identified over \$1 million in program cost avoidance and \$90,000 in fraudulent payments from these analytics. OIG is continuing to work with DTMB toward adding additional State of Michigan data sources.

### ***EFDS Project Highlight***

OIG received an alert indicating that a client had reported unusually high shelter/mortgage expense. Upon further investigation the OIG agent determined the client held numerous unreported assets, including a second home located in Florida, and was the owner of an unreported business. The client was disqualified from FAP for 12 months and signed an agreement to repay \$8,532 in benefits.

Department of Human Services (DHS) will not discriminate against any individual or group because of race, religion, age, national origin, color, height, weight, marital status, sex, sexual orientation, gender identity or expression, political beliefs or disability. If you need help with reading, writing, hearing, etc., under the Americans with Disabilities Act, you are invited to make your needs known to a DHS office in your area.