



Department of Legislative Services
Office of Legislative Audits

Fraud Investigation Unit Update and Results

Presentation to Joint Audit and Evaluation Committee

Gregory A. Hook, CPA
Joshua S. Adler, CPA, CFE
Joseph E. McWilliams, CFE

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Fraud Investigation Unit - History

- **2002** – The Joint Audit Committee instructed OLA to implement a hotline and web referral process for the reporting of allegations of fraud, waste, and abuse in State government operations.
- **2003** – OLA's hotline and web referral process were launched with an expected call volume of 200 calls per year but as noted on page 5, actual call volume has consistently exceeded expectations.
- **2016** – OLA dedicates a second employee to the hotline.
- **2020** – OLA dedicates a third employee to the hotline and establishes the Fraud Investigation Unit (FIU).
- **2021** – OLA dedicates a fourth employee to the FIU.



Department of Legislative Services Office of Legislative Audits

Fraud Investigation Unit (FIU) – Responsibilities

FIU operations include both administrative and investigative activities as depicted in the following tables.

Administrative Operations
Fraud Hotline Administration <ul style="list-style-type: none">• Call Intake• Initial Research, Assessment, & Recommended Actions• Allegation Referrals
Allegation Due Diligence <ul style="list-style-type: none">• Research• Validity & Risk Assessment• Recommended Actions• Approach Development
Outreach & Education <ul style="list-style-type: none">• Agency Outreach• Training & Development• Presentations• FIU Newsletter

Investigative Operations
Audit Support <ul style="list-style-type: none">• Allegation Approach Development• Procedural & Testing Guidance• Finding Development• Vendor & Employee Research• Transaction Analyses• Specialized Reports
Special Investigations <ul style="list-style-type: none">• Planning & Conducting Investigations• Referrals to Prosecutorial Agencies
Fraud Brainstorming & Risk Assessment <ul style="list-style-type: none">• Brainstorming• Allegation Risk Assessment• Assessment of High-Risk Areas



FIU Administrative Operations - Hotline Administration

- Allegations are received by phone, web, referral, mail, and from OLA auditors in the field.
- Callers are informed that the information provided is considered confidential, and are provided with information about the State's "whistleblower" laws if reassurance is needed.
- Investigative auditors (certified fraud examiners) handle calls during business hours in accordance with established procedures.
- All allegations are assessed for credibility, and due diligence is performed before field investigations are initiated.
- Allegations are 1) investigated by OLA – either as part of a regularly scheduled audit or as a special audit 2) referred to applicable State agencies, or 3) not pursued.



FIU Administrative Operations - Referrals to State Agencies

Callers who report allegations that would be more appropriately handled by other agencies are referred to the applicable agencies for assistance. Example of these referrals include:

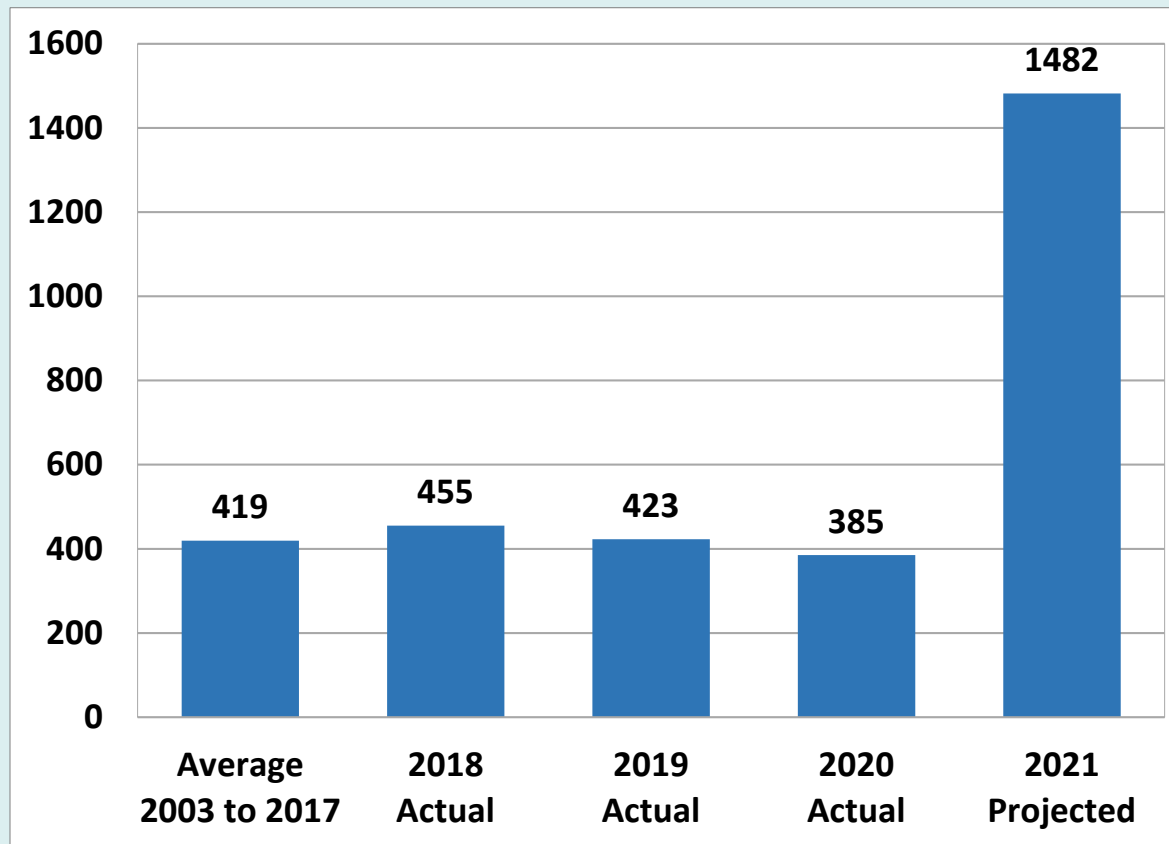
- Unemployment Insurance – *Maryland Department of Labor*
- Welfare Benefits – *Department of Human Services, Office of the Inspector General*
- Medicaid Benefits – *Maryland Department of Health, Office of the Inspector General*
- Identify Theft – *Office of the Attorney General, Identify Theft Unit*
- Income Tax – *Comptroller of Maryland, Compliance Division*



FIU Administrative Operations - Hotline Statistics

Call Volume

(Calendar Year Basis)



The increase in 2021 was primarily due to the large number of unemployment calls received (40% of all calls).

Allegation Disposition

(February 2003 through October 2021)

Investigations Completed by OLA or in Process	16%
Referred to State Agencies (38% were related to Department of Human Services benefits.)	65%
Not Pursued	19%



FIU Administrative Operations - Hotline Awareness

The FIU promotes OLA's hotline by displaying fraud posters in State offices, including biannual messages on State employee payroll notices, and requesting that agencies send annual emails to their employees with OLA's hotline information.

Chapter 225 of the Acts of 2021 required that each unit of State government:

- Display OLA's fraud hotline posters in their buildings,
- Post a link to OLA's fraud hotline website on their websites, and
- At the request of OLA, distribute information regarding fraud to their employees.

STOP FRAUD
IN STATE GOVERNMENT

What kind of issues should be reported?

- FRAUD
- MISUSE OR ABUSE OF STATE RESOURCES
- THEFT
- POTENTIAL CONFLICTS OF INTEREST
- CORRUPTION
- SIGNIFICANT VIOLATIONS OF LAWS AND REGULATIONS
- VENDOR KICKBACKS

Available 24 hours a day,
7 days a week.

Information received is considered confidential.
You can remain anonymous.

Call Toll Free 877-FRAUD-11
(877-372-8311)

or report fraud at
our website www.ola.state.md.us
(Click on Stop Fraud)

Maryland General Assembly
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FIU Investigative Operations – Results of Investigations

The results of investigations may be included in OLA's fiscal compliance audit reports or in separate special review reports. Examples from the past 12 months include:

- **Department of Juvenile Services (DJS)** – Review of DJS' procurement and payment activity to follow-up on a prior audit finding that resulted in the conviction of a former DJS management employee. (Report Dated September 2, 2021)
- **Office of the Public Defender (OPD)** – Allegations related to concerns with OPD's procurement of IT services and questionable charges by a panel attorney. (Report Dated August 10, 2021)
- **Maryland Department of Agriculture (MDA)** – Allegation related to MDA not taking sufficient actions when grantees were noncompliant with grant terms. (Report Dated December 14, 2020)



FIU Investigative Operations – Results of Investigations

Department of Juvenile Services (Findings 1 and 2)

Deficiencies were identified relating to DJS' procurement and monitoring processes.

- DJS did not consolidate procurements, resulting in the circumvention of certain State procurement regulations. In addition, DJS could not support certain contract modifications.
- DJS did not verify the propriety or reasonableness of certain services prior to payment, resulting in overpayments to vendors.
- DJS management authorized payments on invoices that had been previously denied by contract monitors. The invoices were initially rejected because they included services that were not provided or specifically excluded by the contract.



FIU Investigative Operations – Results of Investigations

Office of the Public Defender (Findings 1 and 2)

OPD did not comply with State procurement regulations when awarding two sole source information technology (IT) contracts. In addition, OPD did not monitor two IT contracts, including one of the sole source contracts, to ensure certain deliverables were provided and tasks were performed.

- OPD did not justify the use of a sole source procurement method for two contracts with expenditures totaling \$960,000. For one of these contracts, neither the initial contract nor any of the 19 contract modifications totaling \$850,000 were approved by the Department of General Services or Board of Public Works.
- OPD did not adequately monitor one IT contract with payments totaling \$1.8 million to ensure that certain deliverables were provided and tasks were performed.
- OPD could not adequately document that contracted IT advisory services were provided by one vendor that received payments totaling \$939,000.



FIU Investigative Operations – Results of Investigations

Office of the Public Defender (Finding 4)

OPD lacked comprehensive procedures for monitoring panel attorney (PA) invoices and did not expand its review and initiate collection actions when questionable billings were identified.

- OPD did not always determine the reasonableness of hours charged per day by each PA. As a result, OPD was unable to readily determine instances when it was billed for excessive or duplicate hours.
- OPD management hired a forensic accountant to review questionable charges OPD identified on invoices from one PA. OPD referred the matter to the proper authorities, but it did not seek reimbursement for any questionable charges and did not expand its review to other payments to this PA.
- Our extended review of this PA's invoices disclosed that the PA billed and was paid for more than 20 hours on 40 different days. We also noted 25 cases that were billed and paid twice and 2 cases that were billed and paid three times. Additional questionable charges we identified totaled approximately \$47,000.



FIU Investigative Operations – Results of Investigations

Maryland Department of Agriculture (Finding 1)

MDA did not adequately monitor cover crop grant inspections by Soil Conservation Districts (SCDs) and take corrective actions when inspections identified noncompliance with grant requirements.

- MDA's processes for monitoring SCD inspections were not sufficient to ensure compliance with grant agreements.
- SCD inspections were not comprehensive; the methods used to conduct inspections were not consistent between each SCD; and certain reported inspections appeared questionable.
- Our review of six grants with instances of noncompliance disclosed that none of the grants were cancelled as required by the cover crop grant agreements. Instead, MDA took other actions which were not provided for in the grant agreement, such as negotiating a lower payment rate.



FIU Investigative Operations – Audit Support

The FIU provided support on 39 other OLA special reviews/audits, such as the Judiciary, Uninsured Employers' Fund, and Review of Procurement of Certain COVID Tests. This support included activities such as:

- The development of audit procedures to address allegations and related risks.
- Preparation of electronic data matches to identify high-risk transactions.
- Analyses of agency transactions and documents to identify indicators of fraud and noncompliance with laws and regulations.
- Comprehensive research into individuals and companies referenced in allegations.
- Participation in fraud brainstorming sessions to identify high-risk areas and develop an approach to address the risks.



Conclusion

The FIU's efforts will continue to evolve and expand to help prevent and detect fraud and abuse in State government.

- Significant efforts continue to be made to build awareness of the hotline.
- Hotline activity has continued to exceed initial expectations. Investigative auditors provide a high level of customer service to the hundreds of hotline callers.
- OLA continues to identify and report on significant findings, in both fiscal compliance audit reports and special review reports, based on hotline allegations.
- FIU future plans include:
 - Dedicating additional employees to the FIU team
 - Processes for the proactive detection of fraudulent transactions
 - Expanded support for ongoing audit efforts
 - Additional initiatives to promote fraud awareness in State government