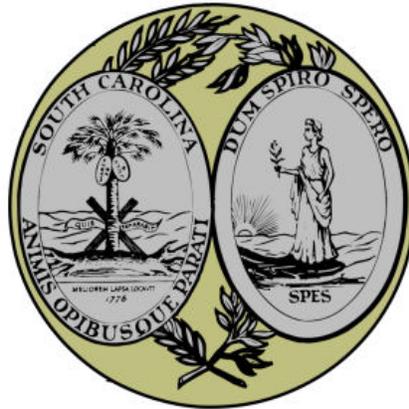


# Office of the State Inspector General

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## **State Inspector General Fiscal Year 2012 – 2013 Annual Report**

July 2013



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It is a pleasure for the State Inspector General (SIG) to provide this first annual report to the Governor, the Speaker of the House of Representatives, and the President Pro Tempore of the Senate, mandated by enabling legislation passed by the General Assembly and signed into law by the Governor in 2012. The SIG appreciates the collaboration provided this Office by you and members of your staffs during the SIG's first year of operations. This report sets forth the SIG's mission, strategies, and results for Fiscal Year 2012-2013.

## I. Mission

The SIG's statutory mission is to investigate and address allegations of "fraud, waste, abuse, mismanagement, misconduct, and wrongdoing" within the Executive Branch consisting of 100 separate agencies, commissions, boards, and universities; annual expenditures exceeding 20 billion dollars; and 58,000 employees. The general mission of an Inspector General was well described by John Ward, the father of the first state SIG Office in Massachusetts (1981), "*The basic concept behind the Office of the Inspector General is that any institution, corporation, university, let alone the institution of government, must build into itself a mechanism for self-criticism and self-correction.*" He also astutely identified the SIG's role as that "*vast middle ground between the ability to review all state transactions to a limited degree without the power to investigate [i.e., the Auditor], and the power to investigate allegations of fraud on a case-by-case basis [i.e., the Attorney General].*"

This broad mission translates into two streams of SIG activity to achieve the objectives of ensuring a high integrity work force and increase the cost/effectiveness of Executive Branch operations. If we are successful in these two objectives, a third objective will inherently be achieved--increase the public's trust and confidence in our State's government.

To accomplish these objectives, the SIG requires a dual skill set. The SIG embraces the taxpayer watchdog role which adds value by solving individual problems and fixing individual accountability. However, if the SIG only investigated allegations, then wrote reports on fraud, waste, and abuse (FWA), it would be tantamount to the carnival game of "whack-a-mole"—a game with no end. The real challenge is to prevent and deter FWA in the first place. It is also the SIG's role to be an organizational doctor, where it strives to fix root causes and not just chase after symptoms. The SIG must exercise both skill sets for long-term success.

The SIG's authorized strength in FY 2013-2014 is seven employees. Outwardly, this appears as a daunting mission for only seven people; however, seven people can address this mission with a systems strategy approach that taps into the energy of 100 Agency Directors, 7900 managers, and 50,000 front-line employees. The SIG will design its selection of cases and systems to reinforce, refresh, and educate the 8000 hard working Executive Branch managers by bringing focus to the two fundamental foundations of an effective organization: 1) high integrity workforce and 2) a well honed management framework where a legislative mission is translated

into operational objectives, then executed through tactical strategies and processes into measureable results aligned with objectives.

The organization-wide benefit of SIG activities is to create an environment, either through an “organizational doctor” encouragement or “taxpayer watchdog” fear, where Executive Branch leaders re-examine their management framework, primarily strategies & execution processes, to improve performance and learn from examples of FWA instances across the entire Executive Branch.

## **II. Strategies**

The SIG’s broad statutory mission statement will be executed with the following seven strategies designed to cost/effectively promote integrity, effectiveness, and public trust in state government:

1. Develop a mechanism to identify operations in the Executive Branch with high risk of significant waste and performance indicators, and then conduct prioritized reviews.
  - a. Continuously refresh and develop relationships with key constituents, to include Agency Directors, internal audit community, other investigative entities with venue in the Executive Branch, and Legislative leadership and staff in order to glean leads on potential cases of significance and merit;
  - b. Meet each House and Senate Committee Chairman and brief them on the SIG’s mission and capabilities, which includes acting on legislative requests for investigations in the Executive Branch involving significant waste and accountability issues;
  - c. Emphasize specific issues to generate narrowly focused investigations that not only address issue under review, but have potential for lessons learned impacting the entire Executive Branch;
  - d. Deploy a preliminary investigation (PI) process to maximize cases scoped out for significant waste and performance issues, yet conserve resources to devote to those cases, known as full investigations (Full), with the highest potential. This PI approach allows the SIG more “contact” with the Executive Branch to maintain a healthy presence. Closed PIs add value through a cursory review of operations that does not provide assurance, yet conducts enough review to determine there is likely not a significant issue of FWA;
  - e. Enhance outreach program to push education regarding the SIG’s mission/capabilities through multiple mechanisms to Executive Branch employees;
  - f. Communicate “lessons learned” with “SIG Alerts” during the year; and
  - g. Results are measured in impact defined as cost savings, enhanced effectiveness, or a combination of both, preferably at the statewide or agency level;

2. Maintain a “zero tolerance” threshold pertaining to employee integrity allegations, which principally include fraud and corruption.
  - a. Require all state agencies to affirmatively report all fraud/corruption allegations to the SIG;
  - b. Provide “one-stop shopping” for allegations, swift initial assessment, and then facilitates a coordinated law enforcement response; and
  - c. Publish an annual report of the impact of fraud/corruption on state government emphasizing “lessons learned” and internal control recommendations.
3. Investigate allegations of serious misconduct by senior Executive Branch employees on a case-by-case basis to maintain integrity in its leadership and confidence with the public.
  - a. Market its capabilities to conduct executive misconduct investigations to Agency Directors, which can provide them an independent investigation to enhance acceptance of results for internal morale and external confidence, as well as produce a product for a fair personnel adjudication, if warranted; and
  - b. Maintain vigilance through all sources of information, to include the media, for potential cases where the SIG may self-initiate an independent investigation deemed necessary to be in the public’s best interest.
4. Will proactively make recommendations to the Legislative and Executive Branches to strengthen public integrity laws and implementation policies, respectively.
  - a. Meet with each Chairman of the House and Senate Ethics Committee to provide the SIG’s input as proposed ethics reforms impacting the Executive Branch;
  - b. Establish an ethics component as an integral part of the SIG’s outreach program provided in a number of high profile forums to market the SIG’s mission and capabilities; and
  - c. Develop a mechanism for situational awareness of all complaints at the Ethics Commission for lead potential.
5. Serve as a central and confidential repository for state employees, as well as the public, to provide information to improve government performance, also known as “fraud, waste, and abuse,” often through the SIG’s hotline.
  - a. Action pertinent information with investigations and reviews by the SIG;
  - b. Route information not actioned by the SIG in a manner to prevent compromising any confidentiality to the appropriate state agency for follow-up, which may or may not require a formal report back to the SIG based on its significance; and
  - c. Provide a healthy feedback mechanism to state government Agency Heads, such as quality of service, leadership issues, or personnel matters.
6. For unique & special Executive Branch-Wide issues, lead a task force of agency subject matter experts on a state-wide process/procedure/topic which benefits from the

independence, strategy, and rigor of an SIG report due to sensitivities of entities with equities at stake in the outcome.

- a. In FY 2013-2014, develop pilot program presentation for the Budget Control Board (BCB), Governor's Office, and key legislative staff to inspect agencies' organizational objectives, strategies, metrics for success, and information systems to manage this process. This will provide a quality control on annual Accountability Reports, sensitize all of these key operations, and provide a unique developmental opportunity for mid-level executives participating with the SIG on these reviews; and
7. The SIG provides a value-added service, along with a real dose of accountability, in the above strategy, as well as provides "lessons learned" feedback through "SIG Alerts" or annual reports to Executive Branch agencies on all strategies. This then leads to the most important objective—creating an organization-wide environment for Executive Branch leaders, motivated either through "organizational doctor" encouragement or "taxpayer watchdog" fear, to re-examine their strategies & execution processes to improve performance, and learn from examples of fraud, corruption, waste, and serious misconduct instances across the entire Executive Branch.

### **III. Results**

The SIG operated with two investigators during FY 2012-2013, the Inspector General himself and one administrative support. The SIG's results in the first year are categorized as both administrative, predominantly establishing a new independent agency, and substantive investigative results.

#### **A. Administrative Results**

The administrative results pertain to establishing a new independent agency of state government. These results include:

- Implemented the enacting legislation into a focused agency mission statement;
- Communicated this mission statement in a variety of personal contacts and written communication to Executive Branch and Legislator leadership, as well as to the rank of file of both branches;
- Established points of contacts in the 106 Executive Branch agencies, universities, and commissions to develop two way dialogue on reporting potential investigations, as well as the SIG delegating cases from its "hotline" to agencies to action;
- Developed SIG standard operating procedures, both administratively and operationally;
- Developed, advocated, and received the SIG's first full-year budget; and
- Managed funding shortfalls in the SIG's start-up FY 2012-2013 budget through negotiations and arrangements of support through other Executive Branch agencies.

## B. Substantive Results:

Substantive results are generally set forth in formal reports and letters of findings as follows:

- Report titled, “*State Government Information Security Initiative—Current Situation & A Way Forward,*” pertained to assessing state agencies’ information security (INFOSEC) posture immediately after the Department of Revenue Breach in October 2012. This report concluded the State lacked an adequate INFOSEC program, exposing the state to unmanaged and uncontrolled statewide risks having potential impact on the entire State government. Interviews and surveys clearly demonstrated a less than adequate INFOSEC posture where agencies complied with 63% of basic INFOSEC generally accepted policies, with one-third of all agencies below 50% compliance. The review recommended hiring a national subject matter expert to implement a statewide INFOSEC program, which was adopted by the Budget Control Board and currently being implemented through proviso and pending legislation. Link to report at <http://oig.sc.gov/Documents/State%20Government%20Information%20Security%20Initiative%20Current%20Situation%20and%20A%20Way%20Forward%20Interim%20Report.pdf>.
- Report titled, “*South Carolina Lacks a Statewide Prescription Drug Abuse Strategy,*” pertained to assessing five state agencies’ collective responsibility to address prescription drug abuse, a national epidemic, in South Carolina. This report concluded the State’s fragmented mission among five agencies was not effective. The report developed a strategy based on success from other states on this issue, which was fully endorsed by the State’s Medical Board and all agencies involved. Once implemented, annual savings will include tens of millions of dollars by reduced Medicaid expenditures, triple the savings by private insurers, and savings of many lives from death, pain, and misery of this scourge on society. Link to report at <http://oig.sc.gov/Documents/South%20Carolina%20Lacks%20A%20Statewide%20Prescription%20Drug%20Abuse%20Strategy.pdf>.
- Report titled, “*Review of Red Flag Indicators of Potential Wrongdoing at the Retirement System Investment Commission (RSIC),*” pertained to examining allegations of criminal activity, misconduct, and mismanagement at the RSIC. This report concluded there was no wrongdoing at the RSIC based on the allegations, but identified and confirmed legitimate operational issues. This had the benefit of clearing the air of several years of accusations and inferences undermining the public’s confidence in this agency managing \$25 billion dollars impacting nearly a half million South Carolinians retirements. Further, the report identified the “root causes” for these allegations, which clearly framed three issues, along with recommendations, for the Agency’s management, as well as the Budget Control Board (BCB), to exercise leadership to resolve these major issues. Link to report at <http://oig.sc.gov/Documents/Review%20of%20Red%20Flag%20Indicators%20of%20Potential%20Wrongdoing%20At%20the%20Retirement%20System%20Investment%20Commission.pdf>.

- Report titled, “*Fraudulent Activity at a Non-Profit Organization Involving State Funds & Lessons Learned to Improve Statewide Contract and Grant Monitoring*,” pertained to a fraud investigation involving hundreds of thousands of dollars yielding valuable insight in how the state agencies monitor grants and contracts. The Non-Profit under investigation had five revenue streams through a contract, grants, and a legislative proviso from the three state agencies. The review depicted a wide variety of state agency contract/grant monitoring capabilities for these five revenue streams, ranging from the good, the adequate, less than adequate, and the bad. Ample organizational research identified contract/grant monitoring, which is conducted by every agency, as a high risk area for waste in government. South Carolina state law addresses contract procurement in great detail, but is silent on post award contract monitoring. Therefore, by default, each agency has the responsibility to develop its own contract monitoring program. Absence of a central standard leads to varying levels of quality among agencies in their respective contract/grant programs.
- A summary letter titled, “*Contract Monitoring*,” pertained to the SIGs assessment and concerns about state agencies’ contract monitoring capabilities. The Procurement Division, BCB, provides contract monitoring training, but it is not mandatory. However, much like the SIG observed in the Information Security (INFOSEC) crisis, there was no central authority providing standards to State agencies on contract monitoring expectations. Initial scoping of this issue with field work determined there was no common approach in agencies and some agencies had reservations about how thorough this function was being executed throughout their organizations. The SIG recommended the BCB to establish standard policies, procedures, terminology, and training. Unlike INFOSEC, the state can quickly upgrade its capabilities by setting basic standards and guidance. A little training, structure, and common language, can upgrade capabilities in a short time with little cost and likely a much greater savings in terms of dollars and time, let alone providing Agency Directors due diligence assurance in this high risk area for waste. Link to letter at <http://oig.sc.gov/Documents/Contract%20and%20Grant%20Monitoring%20Findings%20and%20Recommendations.pdf>.
- A summary letter titled, “*Payment Error Rate Measurement (PERM)*,” pertained to Federal Government audits of the Department of Health & Human Services’ (DHHS) eligibility process to determine improper Medicaid payments to ineligible recipients. The federal audit identified an error rate of 10.3%, which extrapolated to estimate benefits paid in error totaling \$406.3 million (17.2%). This was over four times the national 4.0% dollar error rate. In the first phase of the SIG review, its staff consulted with DHHS’s task force addressing deficiencies. In the second phase, the SIG then used a separate team to assess the eligibility process improvements after implementation. This resulted in an estimated 6.6% error rate, much better but still slightly above the national average. However, this second phase also identified several small quality controls, if implemented, could drive the error rate to 1.3%, far below the national average with corresponding dollar savings in the multi-millions. Link to letter at [http://oig.sc.gov/Documents/SCDHHS%20Payment%20Error%20Rate%20Measurement%20\(PERM\)%20Findings%20and%20Recommendations.pdf](http://oig.sc.gov/Documents/SCDHHS%20Payment%20Error%20Rate%20Measurement%20(PERM)%20Findings%20and%20Recommendations.pdf).

- Based on reports, the SIG has published three “*Lessons Learned Alerts*” for Executive Branch Agency Heads. Now the SIG work processes have been established, an inventory of cases developed, and new investigators added, the SIG should average a lesson learned of once of month, which adds value without overloading Agency Heads. Link to these alerts at <http://oig.sc.gov/Pages/Alerts.aspx>.
- Other significant activities not rising to the level of a formal report included input into the legislative committees on ethics reform pertaining to the Executive Branch; state disability retirement; use of state vehicles; two frauds; a corruption matter; and a number of single instances of wrongdoing.
- The SIG operates a “hotline” for the Executive Branch of state government. The hotline fielded hundreds of calls during the FY. Many calls are not pertinent to the SIG’s mission, and the caller was redirected to the appropriate state agency addressing their concerns. The SIG did log 205 complaint, which are listed below:

<b>Agency</b>	<b># complaints FY 2012-2013</b>
Dept. of Social Services	50
Dept. of Health & Human Services	21
Dept. of Transportation	11
Dept. of Employment & Workforce	11
Dept. of Corrections	9
Dept. of Revenue	6
Budget Control Board	5
Private Company-nexus to state govt.	14
Federal Government	9
Local Government	7
Local School Boards	9
25 Agencies with 4 or less complaints	53
<b>Total</b>	<b>205</b>

These complaints originated from “hotline,” email, walk-ins, and state government referrals resulting in 15 investigations during FY 2013-2014. Many leads required scoping with record checks and limited interviews during the preliminary inquiry phase, which did not result in formal investigations. The vast majority of hotline and email complaints pertain to personnel issues or lower level leadership complaints in state agencies. This pattern was similar to other state Inspector General’s hotlines. However, the hotline provides a valuable asset to state government allowing a mechanism to identify all types of organizational issues, some relevant to the SIG and some unique to an agency, for review to improve. Further, providing this mechanism provides an outlet for venting organizational stress, which is healthy even if the complaint is not actionable.