

AGENCY NAME:	State Inspector General		
AGENCY CODE:	D25	SECTION:	093



Fiscal Year 2014-15 Accountability Report

SUBMISSION FORM

AGENCY MISSION	<p>The State Inspector General’s (SIG) 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 with annual expenditures exceeding \$25 billion and 66,000 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].”</p> <p>This broad mission translates into two streams of SIG activity: support a high integrity work force; and increase the cost/effectiveness of Executive Branch operations. Tactical implementation to address maintaining a high integrity workforce includes fraud and misconduct investigations, as well as proactive efforts to enhance statutes, regulations, and agencies’ policies to set the highest integrity standards for employees to guide their behaviors and be accountable to the public. Tactical implementation to improve cost/effectiveness involves waste investigations emphasizing cases with the potential for statewide impact directly or indirectly from “lessons learned.”</p>
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Please identify your agency’s preferred contacts for this year’s accountability report.

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I have reviewed and approved the enclosed FY 2014-15 Accountability Report, which is complete and accurate to the extent of my knowledge.

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AGENCY DIRECTOR <i>(SIGN/DATE):</i>	
<i>(TYPE/PRINT NAME):</i>	Patrick J. Maley

BOARD/CMSN CHAIR <i>(SIGN/DATE):</i>	Not Applicable—The State Inspector General is an independent state agency without a board or commission.
<i>(TYPE/PRINT NAME):</i>	

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AGENCY’S DISCUSSION AND ANALYSIS

The Office of the State Inspector General (SIG) was created on 7/1/2013 with a small startup budget. A year later on 7/1/2014, the SIG was granted its first full budget to hire staff, establish an operational office, and train staff in the dynamic environment of investigations, evaluations, and audits, often using a combination of these related disciplines in each review. On 7/1/2014, the SIG was postured with the experience from highly successful reviews during its early development phase and entered FY 2014-2015 with a fully trained staff at full complement. The results fulfilled the vision of Governor Nicki Haley and the General Assembly of establishing an independent and objective agency willing to seek out, identify, and engage issues previously unaddressed to improve state government through fraud, abuse, and misconduct investigations.

The SIG has to use its limited resources of five investigators judiciously on waste reviews that can have the highest impact on state government, preferably statewide, as well as be responsive to individual allegations of fraud and misconduct to fix individual accountability and promote a high integrity environment. The SIG’s role in substantial statewide change often requires multiple years, which can be illustrated with three reviews originating over two years ago. First, the 2012 INFOSEC report’s recommendations have been fully implemented establishing a State Chief Information Security Officer and statewide standards, which will only be fully implemented in the summer 2016. Second, the 2013 Prescription Drug Abuse Report resulted in establishing a Governor’s Task Force, which fully adopted the report’s findings, with many implemented during 2015 and legislation pending for the upcoming 2016 legislative session. Third, five misconduct reports conducted in 2013 identified systemic deficiencies with Executive Branch agencies’ codes of conduct, which stimulated another Governor’s Task Force, which established a model code of conduct for the Executive Branch, containing heightened ethical standards, implemented on 7/1/2015. Statewide change is hard, but the SIG sees its role in identifying the problem, framing a way forward, and stimulate stakeholders to act as exhibited by these three case examples.

FY 2014-2015 waste review findings and recommendations had statewide impact with the benefits increasing over time as the changes integrate into the fabric of the state. Some of the higher profile reviews, which will be details later in this report, include improvements in the contract monitoring of the \$2.6 billion Medicaid Managed Care Program; improvements in statewide accounts receivables through transparency, best practices, and enhancements to debt collection programs at the Department of Revenue; identification of serious deficiencies in the State’s agency performance management program (Annual Accountability Reports); identified a non-profit executing state grants benefitting low income citizens with serious deficiencies requiring the State to move to defund the non-profit and change statewide grant monitoring procedures, which identified a second non-profit requiring State intervention and leadership change; a performance review of the Commission on Minority Affairs (CMA) identified mission drift and management deficiencies, as well as framed a way forward CMA leadership fully endorsed.

FY 2014-2015 integrity investigations were equally split between five fraud and five serious misconduct investigations, which are summarized later in this report. Again, with limited resources, misconduct reviews focus on serious misconduct of executive management, which adds independence, objectivity, and credibility to the outcomes of these sensitive investigations, which can impact organizational morale and leadership credibility.

Evaluating the SIG requires hard quantitative metrics, presented at the end of this report, as well as the examination of review summaries with their corresponding impact having a qualitative nature. Below are the SIG’s measurable results for FY 2014-2015:

- Review titled, “South Carolina State Government’s Performance Management System – An Untapped Tool Pivotal to Improving State Government” was the SIG’s most significant contribution to state government over the past FY with the finding the State’s performance management system for agencies is not effective with corresponding recommendations for statewide change. This fundamental management/accountability mechanism

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to provide accountability and a level of assurance to taxpayers of an effective state government is both ineffective and may be even harmful by providing a false sense of security that an agency has a well-hone operation when it may be failing and just has well written management jargon in its annual report. This is the single most important opportunity to improve state government operations, as well as prevent waste of taxpayer funds.

(Link at: <http://oig.sc.gov/Pages/Reports.aspx>)

- Review titled, “Review of Federal Grants to the Piedmont Community Actions, Inc. (PCA)” pertained to a non-profit’s mismanagement of two state government weatherization grants over a five year period. A 10% sample yielded unallowable costs of \$104,000, which extrapolated to an estimated \$1 million in unallowable costs. Further, PCA’s overall financial control environment was determined to be weak impacting the reliability of the system to support its four state grants. The state’s Office of Economic Opportunity (OEO) was also determined to be deficient in its grant monitoring responsibilities over PCA, which is a common problem in state government needing attention on a statewide level. OEO is proceeding to defund PCA of all state contracts due to deficiencies identified. Further, this review stimulated OEO to conduct a risk assessment of its other 13 Community Action Agencies operating similar to PCA, which identified Wateree Community Action as dysfunctional also, leading to a temporary defunding and leadership changes. (Link at <http://oig.sc.gov/Documents/Review of Execution and Monitoring of Grants at PCA.pdf>)
- Review titled, “Review of South Carolina’s Medicaid Managed Care Contract (MMC) Monitoring Process” pertained to an assessment of SC Department of Health & Human Services’ (SCDHHS) effectiveness in monitoring the state’s MMC contract with six managed care organizations (MCOs). The six MCOs provided the administration and delivery of Medicaid services to more than 850,000 beneficiaries at an estimated annual cost of \$2.6 billion. This review was self-initiated by the State Inspector General (SIG) based on other federal and state audits of MMCs across the country, which identified a pattern of contract monitoring weaknesses posing a high risk of government waste on contracts measured in the billions of dollars. SCDHHS was commended on successfully building a provider network through six MCOs. However, this review determined SCDHHS’s MMC had no formal written contract monitoring process, nor informal systematic practices to determine if each MCO met their contractual requirements/deliverables, nor a process to provide improvement feedback and follow-up to a satisfactory resolution. A key to obtaining the intended increases in cost efficiencies and health outcomes from the MCO model was lacking, which inherently created sizable waste from the not realizing benefits the MCO model was designed to produce. Further, SCDHHS has not met its federal Medicaid requirement to establish a “Quality Strategy.” (Link at <http://oig.sc.gov/Documents/SIG Letter re Contract Monitoring of Managed Care Organizations SCDHHS.pdf>)
- Review titled, “Allegation of Improper Application and Accounting of Housing Assistance Payments (HAP) by Service Providers under Contract with the Department of Disability and Special Needs (DDSN),” pertained to concerns/suspicious by credible stakeholders that DDSN was not going to appropriately follow-up on its Internal Audit Unit’s significant finding regarding the application of HAP. The SIG partnered with the selected independent CPA tasked with the detail audit work. The SIG’s role was a quality control/assurance of a fair, thorough, and transparent review given both the sensitivities stirred from the concerns/suspicious and a visible signal to all stakeholders, many facing a potential liability, that this issue would be followed through to a resolution. The expansive review examined the 18 providers contracted with DDSN serving the disabled throughout the state that received HAP subsidy. Audit testing ultimately identified 10 providers misapplying HAP. During the two year period of audit, 329 disabled consumers were identified as being overcharged approximately \$1.8 million, which will be repaid to consumers. Review is continuing to ensure repayment plans are executed and DDSN establishes a policy for addressing prior years.

(Link at <http://oig.sc.gov/Documents/Review of Improper Application of HAP Payments by DDSN Service Providers.pdf>)

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- Review titled, “Fraud Risk Assessment of South Carolina’s Statewide Procurement System,” determined the South Carolina’s Statewide Procurement System (SPS) has a low risk for fraud. This is important because a significant portion of the State’s \$24 billion budget is executed through the SPS annually. This review provides the public an understanding and an appropriate level of assurance of the fraud risk when the State spends taxpayer funds. Additionally, this review provides a firm foundation for the Budget and Control Board (BCB) and agencies oversight when deploying finite audit resources in providing assurance testing of the SPS. Opportunities to improve were identified, to include developing mitigation controls for the top tier identified fraud **risks** of sole source, emergency procurement, information technology, and indefinite delivery contracts; place the SIG’s confidential hotline number on key standard procurement documents to facilitate SPS participants in reporting fraud; add additional capacity in the Procurement Services Division, BCB, particularly in training and standardization of a statewide procurement manual; enhance codes of conduct for all employees; conduct periodic fraud risk assessment surveys; and provide fraud awareness training.

(Link at <http://oig.sc.gov/Documents/Fraud Risk Assessment of SC Statewide Procurement System Report.pdf>)

- Review titled, “An Opportunity for Taxpayer Savings Through Improving Statewide Accounts Receivable Practices,” pertained to examining the 2013 statewide Annual Debt Collection Report of the Executive Branch’s self-reported past due accounts receivables (greater than 60 days) of \$1,021,950,073, which was a surprisingly large number. Analysis determined this report’s data had substantial accuracy and reliability issues. A sampling of 30 agencies’ accounts receivables determined a few agencies were exceptional, characterized by a very proactive approach to policies, debt collection procedures, and metrics for results to drive continuous improvement, while others were complacent. Most agencies landed between these two extremes creating an overall bell curve of how state agencies managed accounts receivables, particularly collecting past due debt. Recommendations accepted included a new standardized annual report format; established a baseline of best practices for agencies to compare to its programs to identify areas for potential improvement; and substantial enhancements to the Department of Revenue’s (DOR) two statewide collection programs to more efficiently and effectively serve state agencies. Better data, individual agency improvement, and improved DOR collection capabilities represents a potential significant taxpayer savings--a small percent improvement on a billion dollars statewide past due debt is a big savings. (Link at <http://oig.sc.gov/Documents/An Opportunity for Taxpayer Savings- Improved Accounts Receivable Practices.PDF>)

- Based on a statutory requirement, the SIG served as the contract manager for the fiduciary audit of the South Carolina Public Employee Benefit Authority (PEBA). Sensitivities among several key stakeholders were high for several years pertaining to PEBA’s sister agency, the South Carolina Retirement System Investment Commission (RSIC), over disputes on RSIC’s operations, integrity, and investment returns. The SIG developed a transparent framework to collect data to support the RFP, selected the vendor, and managed the vendor during the five month audit. The report was very well received by all stakeholders, and the SIG’s management prevented the pre-existing sensitivities from manifesting in any measurable way to undermine the objectivity, credibility, integrity, and the ultimate acceptance of the report by stakeholders. The report was valuable in that it had an internal consistency with prior independent reports that addressed issues that had been circulating for years undermining the public’s, as well as state leadership’s, confidence in the state’s retirement system executed through the combined efforts of PEBA and RSIC. (Link at <http://oig.sc.gov/Documents/FAS Final PEBA Fiduciary Audit Report January 2015.pdf>)

- Report titled, “Performance Review of the Commission for Minority Affairs (CMA),” was predicated on complainants and open source records indicating CMA was experiencing organizational distress. As a result, the SIG conducted an organizational performance review, which focused on assessing if an agency’s stated organizational objectives were being addressed with measurable results aligned to stated objectives. The review determined CMA’s primary mission of serving in a leadership role to channel statewide minority needs into policy and programs to target systemic problems impacting the minority community had drifted to one where its day-to-day activities resembled a local community based group providing general services or reacting to ad hoc requests. These activities have value in assisting and understanding the minority communities’ problems, but fall short of accomplishing its primary statewide leadership mission. Additionally, the State also failed in its

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oversight through contributory negligence by having an ineffective agency performance system through the Annual Accountability Reports (AAR). A declining or failing agency can go unnoticed because the State has little capacity to scrutinize and discern, let alone challenge, AAR reports containing inaccurate/nonsensical data or hollow management jargon creating the impression of a well-honed operation. South Carolina state government needs to fix the AAR process. CMA accepted all findings and recommendations.

(Link at [http://oig.sc.gov/Documents/Performance Review of the Commission for Minority Affairs.pdf](http://oig.sc.gov/Documents/Performance%20Review%20of%20the%20Commission%20for%20Minority%20Affairs.pdf))

- Review titled, “Financial Analysis and Investigative Support to Lander University,” pertained to an allegation former Information Technology (IT) employee embezzled funds from Lander University. Investigation identified several schemes containing 268 fraudulent transactions during the period 3/3/2008 through 12/9/2014, which resulted in \$414,000 in embezzled funds from the university. The subject processed fraudulent invoices from a fictitious company, which he then paid using a university purchase card (P-card) through a PayPal account. He also purchased computer equipment and parts with a university P-card, and the re-sold the merchandise through an E-bay account. The subject plead guilty to a felony and forfeited his \$65,000 state retirement and the university recovered \$100,000 from insurance. (Link at [http://oig.sc.gov/Documents/Lander Financial Analysis Report.pdf](http://oig.sc.gov/Documents/Lander%20Financial%20Analysis%20Report.pdf))
- The SIG produced its first annual report titled, “Fraud Conducted by Executive Branch Employees,” which from available reporting documented \$543,000 in losses from 16 frauds in 12 different state agencies. Other than two major frauds, the residual 14 frauds reported during FY 2013-2014 were nominal in nature and indicative of Executive Branch employees operating in a high integrity environment given its \$24 billion budget and 66,000 employees. However, the two major frauds should remind every Agency Head that even though the frequency of major frauds potentially damaging an agency’s reputation and undermining the public’s confidence are low in the Executive Branch, it happened twice during the past FY. Lessons learned were shared with state agencies along with recommendations on improving the key internal control at the center of these frauds—lax supervisory oversight (Link at [http://oig.sc.gov/Documents/2013-2014 Fraud Program Report.pdf](http://oig.sc.gov/Documents/2013-2014%20Fraud%20Program%20Report.pdf)). The SIG’s second annual report was recently published, which identified an increase in embezzlements at the management level. (Link at [http://oig.sc.gov/Documents/SIG Lessons Learned Alert No. 2014 - 2015 Fraud Report.pdf](http://oig.sc.gov/Documents/SIG%20Lessons%20Learned%20Alert%20No.%202014-2015%20Fraud%20Report.pdf))
- Review titled, “Risk Assessment of the Financial Assurance Requirements for Solid Waste Landfills,” originated in response to a closed landfill fire in Chester County negatively impacting the community for over six months with smoke and potential health risks prior to being extinguished by the EPA. DHEC was in substantial compliance with its own policies, but the State and taxpayers were exposed to financial risks due to landfill’s financial assurance did not include any funds for the remediation of pollution events by post-closure monitoring, particularly funds for emergency situations such as Chester County. The SIG recommended DHEC consider establishing a landfill owner trust fund, which other states have used, to protect the State and taxpayers of predictable long-term situations at closed landfills. [http://oig.sc.gov/Documents/Final Letter to DHEC Director re Assessment of the Financial Assurance Requirements for Solid Waste Landfills.pdf](http://oig.sc.gov/Documents/Final%20Letter%20to%20DHEC%20Director%20re%20Assessment%20of%20the%20Financial%20Assurance%20Requirements%20for%20Solid%20Waste%20Landfills.pdf)
- An agency requested the SIG assess its grant management of a \$20 million dollar block grant used to fund 33 sub-grant recipients operating drug/alcohol treatment facilities in the state. The SIG concluded DAODAS was substantially in compliance with its stated policies and procedures with routine, non-substantive findings of non-compliance. However, the SIG concluded this agency’s grant management policies and procedures had substantial opportunity to be streamlined if assessed using risk based methodology. (no link – consultative engagement)
- The SIG’s policy is to not publically release serious misconduct investigations nor completed fraud investigative reports prior to a conviction. However, the SIG is also accountable to oversight and the public, so summaries of these types of investigations are presented in general, non-attributable format:

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- A state agency Commission/Board member was investigated for an alleged conflict of interest involving influencing a Request for Proposal (RFP) to favor a vendor where he/she is employed. The investigation is complete and the SIG has referred this case to the SC Ethics Commission for adjudication.
- A state employee allegedly used state agency records containing personal identifying data (PII) for identity theft schemes. Through records analysis and a subject confession, this matter is complete and has been referred to both state and federal law enforcement for prosecution.
- An agency RFP was alleged to have restrictive requirements inhibiting a competitive contract, which was investigated and referred for resolution.
- Two state employees allegedly used state purchase cards to purchase gas on a regular basis which was diverted for personal use. Through record review, observations, and one subject confession, this matter is complete and has been referred to state law enforcement.
- An investigation into an allegation of a mismanaged state grant resulted in an extensive investigation involving the grant recipient defrauding the state. The subject used fictitious financial statements and grant documentation resulting in a \$1 million grant fraud. This matter is complete and has been referred to state and federal law enforcement.
- Two state employees allegedly executed a scheme using a sham fiduciary and false documents to secure an adoption violating the agency's conflict of interest regulation. This matter has been referred for adjudication.
- A state agency field office allegedly influenced non-exempt office staff to work overtime yet not record these hours for compensation of comp time through SCEIS. Final report forthcoming with recommendations for corrective action.
- A complainant alleged an agency executive inappropriately influenced a \$20 million RFP towards a particular vendor. Investigation determined the allegation did not have merit.
- An agency executive allegedly retaliated against multiple state employees previously claiming whistleblower status through a reduction in force (RIF). An investigative report was provided to the agency's board chairman for adjudication.
- An agency executive allegedly sexually harassed a subordinate. An investigative report was provided to the agency head for adjudication.
- **Update** regarding the May 2013 report titled, "SC Lacks a Statewide Drug Abuse Strategy," which pertained to Governor Haley creating an Executive Order (2014-22) in March 2014 establishing a Governor's Prescription Drug Abuse Council to establish a comprehensive statewide strategy to combat prescription drug abuse in South Carolina. In December 2014, this council developed a "State Plan to Prevent and Treat Prescription Drug Abuse," which adopted all of the SIG's recommendation to include mandatory use of the prescription monitoring program. (Link at: http://www.governor.sc.gov/ExecutiveOffice/Documents/Prescription_Drug_Abuse_Prevention_Council_State_Plan_December_2014.pdf)
- **Update** regarding the SIG's April 2014 finding that state agencies' codes of conduct vary widely, to include how agencies implement their respective codes of conduct. As a result, on April 9, 2014, Governor Haley issued Executive Order No. 2014-23 establishing a State Employee Code of Conduct. In August 2014, the task force recommended a model Code of Conduct for state employees. The Governor approved this model Code of Conduct, which was instituted by Cabinet agencies under the Governor's direct authority, effective July 1, 2015.

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For all other state agencies not under the Governor’s direct authority, which is just over half of the state’s 66,000 employees, this model Code of Conduct is an available template for each agency to consider implementing or revisiting an agency’s existing Code of Conduct for potential improvement. The recommended model Code of Conduct brings to bear three heightened ethical standards which have the capability to dramatically impact employees from sliding down the slippery slope of rationalizing unethical behavior and avoiding even being tempted to prefer their own interests, or the interests of another, over the interests of the public they serve. These three are: avoid even the appearance of a conflict of interest; a “no gift” policy; and a requirement to affirmatively report ethics violations. (Link at [http://oig.sc.gov/Documents/State Employee Code of Conduct Task Force Report.pdf](http://oig.sc.gov/Documents/State_Employee_Code_of_Conduct_Task_Force_Report.pdf))

- The SIG produced seven “Lessons Learned Alerts” distributed to all 106 Executive Branch Agency Heads, as well as courtesy copies to the legislature which included the topics of fraud internal controls; internal audit role in strategic planning; accounts receivable best practices; process protects; codes of conduct; risk based contract monitoring; and sole source contracting.
(Link at: <http://oig.sc.gov/Pages/Alerts.aspx>)
- The SIG operates a “hotline” for the Executive Branch of state government. The SIG logged 617 complaints, which was an 85% increase from prior FY 2013-2014 (330). The vast majority of calls are personnel/leadership issues or customer service complaints for state agencies which are delegated for management inquiry, which is a healthy feedback tool for state government. The FY 2014-2015 complaints pertained to the following agencies:

Agency	# complaints FY 2014-2015
DSS	275
DHHS	37
DOT	21
DDSN	9
DHEC	11
PEBA	5
Dept. of Corrections	10
Dept. of Revenue	10
Budget Control Board	8
SC State University	8
DMV	37
LLR	7
PRT	7
John de la Howe	6
SC Housing	6
DEW	5
DPS	5
Non-Governmental	35
Federal Government	26
Local Government	27
29 Agencies with 4 or less complaints	62
Total	617

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Below are the SIG's quantitative metrics developed specifically in its strategic plan to provide indicators of results addressing stated objectives:

Performance measure	FY 2013-2014 Actual	FY 2014-2015 Target	FY 2014-2015 Actual
Forensic accounting investigations	2	3	4
Misconduct investigations	5	5	5
Corruption investigations	0	2	3
SIG Alerts	5	7	7
Complaints	330	350	617
Statewide waste recommendation	10	15	15
Econ Recovery (prevention)	\$7,311,866	\$618,000	\$1,965,000 (>\$10 million+)