

State Inspector General’s Mission & Result Highlights 2012 – 2016

Mission

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 60,000 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: 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.”

Result Highlights

- Review titled, “*South Carolina State Government’s Performance Management System – An Untapped Tool Pivotal to Improving State Government*,” pertained to identifying the State’s performance management system for agencies as not effective, as well as made recommendations for statewide change. Improving this fundamental management/accountability mechanism to provide accountability and a level of assurance to taxpayers of an effective state government 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/Documents/SIG_Memo_re_Performance_Management_System-September_2015.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 \$2.7 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%20Letter%20re%20Contract%20Monitoring%20of%20Managed%20Care%20Organizations%20SCDSS.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/suspicions 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 a 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/suspicions 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 39 providers contracted with DDSN serving the disabled throughout the state. Audit testing ultimately identified 10 providers misapplying HAP. During the extensive review, 329 disabled consumers were identified as being overcharged \$1.8 million, which will be repaid to consumers. Additionally, the reviewed identified additional errors by providers establishing monthly charges for consumers in excess of a million dollars.

(<http://oig.sc.gov/Documents/Review%20of%20Improper%20Application%20of%20HAP%20Payments%20by%20DDSN%20Service%20Providers.pdf>)

- Report titled, “*Review of South Carolina State University (SCSU) 1890 Program*,” pertained to identifying mismanagement in the 1890 Program where the SCSU inappropriately diverted \$6,478,866 from the program designed to help low income citizens. SCSU’s diversion was needed to subsidize SCSU’s cash flow and deficit problems during the previous five years. This pattern of mismanagement allowed this inappropriate subsidizing practice to escalate out of control masking of SCSU’s financial difficulties for a number of years. This practice only worsened SCSU’s financial situation by allowing deficits to grow while delaying action to address structural business issues causing these deficits. The SCSU repaid the 1890 Program \$6,478,866.
(link at: <http://oig.sc.gov/Documents/Review%20of%20South%20Carolina%20State%20University%201890%20Program.pdf>)
- Report titled, “*Review of Suspicious Indicators at South Carolina State University Foundations*,” pertained to identifying mismanagement where SCSU inappropriately diverted \$2.29 million (2010-2013) from its vendor contracts to foundations associated with the university. These foundations spent these funds for salary supplements, travel, consultants, vendors, flowers, scholarships, awards, entertainment, meetings, country club memberships, and a variety of miscellaneous expenses, many of which were inconsistent with how the public, appropriators, and state procurement policy envisioned state funds to be spent. The report made recommendations to the Budget Control Board and the legislature to provide guidance and legislation to stop certain inappropriate practices of diverting agency revenue to foundations, as well as improve procurement procedures involving vendors providing complex rebates back to agencies which undermines efficiency, effectiveness, and accountability. The \$368,000 residing in foundations was transferred back to SCSU for mission related activities.
(link at: [http://oig.sc.gov/Documents/Review of Suspicious Indicators at South Carolina State University Foundations.pdf](http://oig.sc.gov/Documents/Review%20of%20Suspicious%20Indicators%20at%20South%20Carolina%20State%20University%20Foundations.pdf))
- Review titled, “*Fraud Risk Assessment of South Carolina’s Statewide Procurement System*,” determined the South Carolina’s Statewide Procurement System (SPS) had a low risk for fraud. This was important because a significant portion of the State’s \$25 billion budget was executed through the SPS annually. This review provided the public an understanding and an appropriate level of assurance of the fraud risk when the State spends taxpayer funds. Additionally, this review provided 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.
(link at: <http://oig.sc.gov/Documents/Fraud%20Risk%20Assessment%20of%20SC%20Statewide%20Procurement%20System%20Report.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 wide 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 represented a potential significant taxpayer savings--a small percent improvement on a billion dollars statewide past due debt was a big savings.

(link at: <http://oig.sc.gov/Documents/An%20Opportunity%20for%20Taxpayer%20Savings-%20Improved%20Accounts%20Receivable%20Practices.PDF>)

- During FY 2013 – 2014, the SIG conducted five misconduct investigations in five different agencies involving agency management, often executive management. These reviews revealed wide variability in agencies' code of conduct content, as well as how agencies implemented their respective codes of conduct. Additionally, during the legislature's ethics hearings, the SIG testified on opportunities to improve the state's statutory "Rules of Conduct," which tend to be designed more for elected officials than rank and file Executive Branch employees. This analysis led to Governor Haley issuing Executive Order No. 2014-23 on April 9, 2014, which established a State Employee Code of Conduct Task Force tasked to develop written recommendations for a Code of Conduct for State employees. The thrust of this effort was to establish a standardized code of conduct relevant to Executive Branch employees, yet had the flexibility for agencies to modify to meet their unique mission requirements. Effective 7/1/2015, the Governor implemented the results within her cabinet agencies, and the standardized template was available to all other Executive Branch agencies as a model to consider when updating their respective codes of conduct. (see two links at: <http://oig.sc.gov/Documents/SIG%20Presentation%20Notes%20re%20Opportunities%20to%20Improve%20the%20Executive%20Branch%20Code%20of%20Conduct.pdf>; and <http://oig.sc.gov/Documents/Ethics%20Act%20Recommendations%20Ltr%20to%20Senator%20Rankin%20Nov%202013.pdf>)
- Review titled, "*Lack of Adequate Management Controls in Rehabilitative Behavioral Health Services (RBHS), Department of Health & Human Services (DHHS)*," pertained to the fraud, waste, and abuse caused by RBHS moving in July 2014 from a "high" management control environment in its sister State agencies to a "low" management control environment at DHHS. This low control environment had the noteworthy goal of maximizing beneficiary access to private providers, but directly led to dramatic increases in RBHS Medicaid expenditures from a \$2 million/month baseline to a peak of \$9.95 million/month (391% increase) in 10 months. This generated 64 RBHS provider fraud and abuse investigations with 30 cases currently pending; 13 fraud case referrals to the South Carolina Attorney General; terminated two providers for failure to provide records; made \$6 million in claims against providers for fraud or waste; and suspended six providers based on a determination of a credible allegation of fraud. In February 2016, the DHHS decided to move the RBHS to Manage Care Organizations (MCO) as the SIG's fieldwork was nearing completion. DHHS should be applauded for this difficult decision as a quality option to potentially better manage costs and outcomes. However, the MCO's success is still a function of policy requirements supplied by DHHS, which was a root cause of the RBHS fraud, waste, and abuse. The critical difference was the DHHS lacked establishing clear standards for diagnoses, treatment, and outcomes. Provider flexibility literally created provider unaccountability. The RBHS lessons learned in the area of management controls are transferable to other aspects of DHHS operations, particularly the current Autism initiative and planned changes in the next several years in how Medicaid reimburses providers serving disabled and special needs beneficiaries. The recommendations were accepted by DHHS. (link at: <http://oig.sc.gov/Pages/Reports.aspx>)
- Review titled, "*Allegation of a Violation of the State Procurement Code and Other Issues Related to a Statewide Term Contract Involving the Department of Revenue (DOR) and the Department of Health and Environmental Control (DHEC)*," pertained to a sequence of contracts with "red flags." The initial complaint of DOR circumventing a competitive procurement as required by the Code was unfounded, and likely the result of a highly complex transaction coupled with poor communication between parties. However, during this review, it was determined a fraud software product was inadvertently, as well as inappropriately, placed on the statewide term contract. This required State agencies to use this product and pay a premium price, absent unusual circumstances, yet an agency would be unaware the price and technical requirements for the fraud software product was never competed to obtain an optimal price or technically evaluated for effectiveness. DOR did purchase this fraud software product under the statewide term contract, which met their needs and could be quickly obtained since it was on statewide contract. However, being on statewide contract practically precluded DOR from exploring other potential vendors' products and conducting a competitive procurement process to ensure it received a product best suited to its needs at the best price. The review identified other issues, primarily the developmental risks and pressures involved in agencies developing new information technology in agencies with old legacy systems. (link at: <http://oig.sc.gov/Pages/Reports.aspx>)

- 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. Two key recommendations included establishing a Statewide Chief Information Security Officer (CISO) and hiring a national subject matter expert to implement a statewide INFOSEC program. Both recommendations were adopted by the Budget Control Board and full implementation of the statewide INFOSEC program will be completed by July 2016. (link at: <http://oig.sc.gov/Documents/State%20Government%20Information%20Security%20Initiative%20Current%20Situation%20and%20A%20Way%20Forward%20Interim%20Report.pdf>)
- Report titled, “Review of Managing the Fraud Risk in the Disaster Supplemental Nutrition Assistance Program (D-SNAP),” pertained to an audit of \$92 million in D-SNAP benefits to 304,000 citizens in the aftermath of Hurricane Joaquin in 2015. The review identified \$10 million in overpayments, as well as recommended improvements in planning and executing D-SNAP following future disasters. (link at: <http://oig.sc.gov/Documents/Review-of-Managing-the-Fraud-Risk-in-the-Disaster-Supplemental-Nutrition-Assistance-Program.pdf>)
- Report titled, “Review of \$1.2 million Rural Infrastructure Fund Grant in 2013 to Marion County,” pertained to a sophisticated fraud scheme in a state grant using falsified financial statements and fictitious invoicing. Subject plead guilty on federal charges of mail fraud in January 2017. (link at: <http://oig.sc.gov/Pages/Reports.aspx>)
- 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. As a result of this review, Governor Haley established the Prescription Drug Abuse Council. 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. (see two links at: <http://www.governor.sc.gov/ExecutiveOffice/Documents/Prescription%20Drug%20Abuse%20Prevention%20Council%20State%20Plan%20December%202014.pdf>; and <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 report 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 requiring resolution: the adequacy of the investment strategy; the adequacy of the investment infrastructure; and communication dysfunction among the Commissions. (link at: <http://oig.sc.gov/Documents/Review%20of%20Red%20Flag%20Indicators%20of%20Potential%20Wrongdoing%20At%20the%20Retirement%20System%20Investment%20Commission.pdf>)
- Report titled, “*Review of the Community Residential Care Facilities (CRCF) Program, Department of Health and Environmental Control (DHEC)*,” identified that 6-10% of the 17,000 vulnerable elderly and disabled customers living in CRCFs were living in systemically unsatisfactory conditions. DHEC’s inspection process was ineffective in addressing the responsible CRCF providers, which resulted in these vulnerable customers living in unsatisfactory conditions while the DHEC inspection process churned endlessly without success. DHEC readily accepted the SIG’s findings and recommendations, which focused on establishing a risk based audit approach to

separate recalcitrant providers into a “high risk” category. The “high risk” category received additional DHEC support, but also was subject to intensive audits in a compressed time frame. These providers could either improve or failure would establish a basis for timely adjudication and removal of clients from unsatisfactory conditions. The process was designed to establish certainty of consequences which prevents offenses.
(link at: <http://oig.sc.gov/Documents/DHEC%20CRCF%20Final%20Report%2003012016%20Rev%202.pdf>)

- Report titled, “Investigation of Alleged Excessive Travel & Event Expenses by the Board of Trustees, MUSC,” resulted in a determination MUSC acted within the law, but its policies were excessive and created a suspicion among the public of MUSC violating the public’s trust. The report’s recommendations to moderate its expense policies were adopted by MUSC.
(link at: <http://oig.sc.gov/Documents/SIG%20Final%20Report%20re%20MUSC%20BoT%20Expenses%2001122017.pdf>)
- Report titled, “*Allegations of Excessive Abuse, Neglect, and Exploitation (ANE) Incidents at SC Mentor (Mentor), a Vendor to the Department of Disability and Special Needs (DDSN),*” addressed conflict at the Commission level based on derogatory media reporting of ANE incidents at Mentor; concerns from Commissioners and vulnerable adult advocates; and an emerging atmosphere of distrust in DDSN’s oversight of ANE allegations at Mentor in particular, as well as indirectly Mentor’s standard of care provided to its consumers. The review determined Mentor served 5% of DDSN consumers placed in community residential services, yet over the current and prior two fiscal years, Mentor had 20% of the total ANE allegations and 33% of the sustained ANE allegations resulting in criminal charges against staff. However, an analysis of these of the ANE incidents did not indicate systemic abuse towards consumers inasmuch as the majority of the ANE reporting system contained allegations more akin to staff/facility performance issues. Deficiencies were identified in a lack of transparency in reporting ANE results to stakeholders, as well as inordinate delayed investigations within the ANE system requiring enhanced oversight. Further, Mentor was identified has having a pattern of under-performing for the past eight years. The long-term solution is for DDSN to shift provider contract monitoring from a minimum contract compliance audit towards a risk-based approach emphasizing outcome measures.
(link at: <http://oig.sc.gov/Documents/Review%20of%20Allegations%20Involving%20SC%20Mentor-a%20Private%20Provider%20for%20DDSN.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 had drifted from serving in a leadership role to channel statewide minority needs into policy and programs to target systemic problems. Its current 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 oversight through contributory negligence by having an ineffective agency performance system through Annual Accountability Reports (AAR). The CMA failed to produce AARs twice in a five year period and the residual three AARs lacked meaningful data, yet the CMA budget doubled during this same period. 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 the 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 the subject then paid using a university purchase card (P-card) through a PayPal account. The subject 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 a \$65,000 state retirement and the university recovered \$100,000 from insurance.
(link at: <http://oig.sc.gov/Documents/Lander%20Financial%20Analysis%20Report-DRAFT%20Web%20Copy.pdf>)
- Review titled, “*Review of Execution & Monitoring of Grants at 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 was a common problem in State government needing attention on a Statewide level. OEO was 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 leading to a temporary defunding and leadership changes.

(link at: <http://oig.sc.gov/Documents/Review%20of%20Execution%20and%20Monitoring%20of%20Grants%20at%20PCA.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 during FY 2013-2014. Other than two major frauds, the residual 14 frauds reported were nominal in nature and indicative of Executive Branch employees operating in a high integrity environment given its \$24 billion budget and 60,000 employees. However, the two major frauds should remind every Agency Head that major frauds can potentially damage an agency's reputation and undermine the public's confidence in State government. 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%20Fraud%20Program%20Report-FINAL%20082914.pdf>). The SIG's second annual report covering FY 2014-2015 yielded similar results of \$298,000 in losses from 13 frauds in 11 agencies, with the majority of losses emanating from, again, two major frauds. (link at: http://oig.sc.gov/Documents/FY_2014-2015_Fraud_Program_Report.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. (link at: <http://oig.sc.gov/Documents/Final%20Letter%20to%20DHEC%20Director%20re%20Financial%20Assurance%20with%20Response.pdf>)
- An agency requested the SIG evaluate its grant management of a \$20 million dollar block grant used to fund 33 sub-grant recipients. The SIG concluded the agency was substantially in compliance with its stated policies and procedures with routine, non-substantive findings of non-compliance. However, the SIG noted this agency's grant management policies and procedures had substantial opportunity to be streamlined if it adopted a risk based methodology. (no link – consultative engagement)
- Report titled, "*Review of John De La Howe School's FY 2012-13 Annual Accountability Report to Assess Organizational Effectiveness*," revealed the school did not use generally accepted management practices to carry out its mission which resulted in not fully understanding their abnormally high student cost/day and JDLH had not implemented outcome measurements of its treatment protocols, an industry standard. JDLH's inability to articulate its costs and results were the drivers in its difficulty to justify its budget to legislative oversight. The report stimulated critical review of JDLH resolving issues lingering over a decade, which resulted in driving change through leadership changes and an acceptance, which was supported by a legislative proviso, to pursue management practices to control costs and demonstrate outcome results. (link at: <http://oig.sc.gov/Documents/Review%20of%20John%20De%20La%20Howe%20Schools%20FY2012-13%20Annual%20Accountability%20Report%20to%20Assess%20Organizational%20Effectiveness.pdf>)
- Report titled, "*South Carolina State Government Waste*," pertained to an overview of opportunities to reduce waste in State government. The premise was that waste does not come in neat discreet packages where investigation can cut waste from State government with a scalpel. Waste was like fat marbled throughout a stake, requiring a systems change throughout State government to address. The primary systems approach to address waste are: improved performance management system; improved leadership & employee engagement; and improved structure through combining like functions under common leadership to focus authority, responsibility, and accountability. The area ripest to address waste is enhancing the State's current performance management

system, known as the “Annual Accountability Report (AAR).” The SIG has developed consensus from key leadership throughout government on the need to change. The new Executive Budget Office, Department of Administration responded to the SIG’s suggestions and made substantial improvements in the FY 2014-2015 AAR. (link at: <http://oig.sc.gov/Documents/Addressing%20Waste%20in%20South%20Carolina%20Government.pdf>)

- Report titled, “*Review of Program Integrity Operations at Six Managed Care Organizations (MCO) Delivering Medicaid Services under a Contract with the South Carolina Department of Health & Human Services,*” pertained to reviewing the fraud, waste, and abuse investigative capabilities of MCOs delivery Medicaid services using State funds in an annual \$2.7 billion contract. The review concluded the MCOs were ineffective. In the first 20 months of the contract, one MCO recovered only \$45,000 and the residual five MCOs recovered \$0. (see link: <http://oig.sc.gov/Pages/Reports.aspx>)
- Based on a statutory requirement, the SIG served as the contract manager for the fiduciary audit of the Retirement System Investment Commission (RSIC) in FY 2013-2014 and the South Carolina Public Employee Benefit Authority (PEBA) in FY 2014-2015. Sensitivities among stakeholders and Commissioners were high for several years pertaining to 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 integrity of RSIC. (see two links at: <http://oig.sc.gov/Documents/FAS%20Final%20RSIC%20Fiduciary%20Audit%20Report%20April%2018%202014.pdf> and http://oig.sc.gov/Documents/FAS_Final_PEBA_Fiduciary_Audit_Report_January_2015.pdf)
- Report titled, “*Financial Analysis and Investigative Support to Lander University II,*” pertained to the second major SIG investigation at Lander University using a forensic accounting analysis of a variety of schemes conducted by an accounting supervisor. The SIG’s analysis determined \$337,000 was embezzled over a ten year period. The subject has pled guilty and will make full restitution. (link at: <http://oig.sc.gov/Documents/Lander%20Financial%20Analysis%20Report-DRAFT%20Web%20Copy.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 was conducted by every agency, as a high risk area for waste in government. (link at: <http://oig.sc.gov/Documents/Fraudulent%20Activity%20at%20a%20Non-Profit%20Organization%20Involving%20State%20Funds.pdf>)
- A summary letter titled, “*Contract Monitoring,*” pertained to the SIGs assessment and concerns about state agencies’ contract monitoring capabilities. The Procurement Division, BCB, provided contract monitoring training, but it was 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 establish standard policies, procedures, terminology, and training. Unlike INFOSEC, the state could quickly upgrade its capabilities by setting basic standards and guidance. A little training, structure, and common language, could 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 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 17.2%, which extrapolated to estimated benefits paid in error totaling \$406.3 million. 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 identified several 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 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))
- 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:
 - 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 was 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 mismanagement of a state grant resulted in an extensive investigation involving the grant recipient defrauding the state. The subject used fictitious financial statements and falsified grant documentation resulting in a \$1 million grant fraud. This matter is complete and has been referred to state and federal law enforcement.
 - An agency executive was alleged to have abused his/her position by inappropriately targeting the complainant with a regulatory investigation for political reasons. This allegations was determined to be unfounded.
 - Two state employees allegedly executed a scheme using a sham fiduciary to take custody of a child with designs to secure full custody of the child using fraudulent state documents to cover up this scheme. This matter is complete, agency administrative adjudication resulted in dismissing the employees, and the report has been provided to the Solicitor’s Office for prosecutorial opinion.
 - Three state employees allegedly diverted resources from a work site for personal use. The matter is complete and has been referred to the agency for administrative adjudication.
 - A state agency field office allegedly coerced non-exempt office staff to work overtime yet not record these hours for compensation of comp time through SCEIS. Agency executive management accepted finding with final report forthcoming with agency-wide recommendations.
 - An agency executive allegedly 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.
- An agency manager falsified state records to enhance an office's performance metrics and executed transactions with a family member creating potential conflicts of interest. State employee resigned.
- An agency head created reciprocal consulting agreements with a similar agency located in another states, which created windfall profits for both. Case referred to State Ethics Commission.

- The SIG produced 15 “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>)

Below are the SIG’s quantitative metrics developed specifically in its strategic plan to provide indicators of results addressing stated objectives for the most recent FY 2014 - 2015:

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

The SIG’s three Annual Accountability Reports can be located at below links:

FY 2012-2013 (see link: <http://oig.sc.gov/Documents/SIG%20Annual%20Report%20FY%202012-2013.pdf>)

FY 2013-2014 (see link: <http://oig.sc.gov/Documents/SIG%20FY%202013-14%20Annual%20Accountability%20Report.pdf>)

FY 2014-2015 (see link: <http://oig.sc.gov/Documents/SIG%20FY%202014-15%20Annual%20Accountability%20Report.pdf>)