

SIG Lessons Learned Alert #1 - Contract/Grant Monitoring

The State Inspector General (SIG) investigated wrongdoing involving state funds used by a South Carolina chartered, non-profit organization (Non-Profit). Eight-six percent of the Non-Profit's revenue came from three state agencies in the form of a contract, grants, and a proviso. The allegations consisted of a fraud committed by a former bookkeeper and false grant expense reports submitted by the Non-Profit and reimbursed by multiple South Carolina state agencies.

During the past three FYs the Non-Profit had five revenue streams from the three state agencies totaling approximately \$3,000,000. Two grant funding streams from two different agencies totaled \$512,017, which contained \$188,819 (36%) in false reimbursement expense requests. Also during that period, the Non-Profit had a \$1,067,500 revenue stream through legislative provisos administered through a state agency, which contained \$273,241 (25%) in unaccounted for funds unsupported by the Non-Profit's books and records. These three funding streams' unaccounted for funds totaled \$462,060 (15%). Despite fraud, false expense documents, loose management controls, and poor records, the unaccounted for funds likely were predominately misapplied to support the Non-Profit's mission in other unfunded areas.

The review of the contract and grant monitoring plans for the five Non-Profit revenue streams from the state identified the good, the adequate, less than adequate, and the bad. One agency's contract service coordination function had no issues or unaccounted for funds, and it was not a coincidence this agency had a robust contract monitoring plan. The two agencies with grants both suffered unaccounted for funds. However, the agency with an adequate grant monitoring process had substantially lower unaccounted for funds (25%) than the agency with a less than adequate grant monitoring process (60%). The largest dollar figure in unaccounted for funds pertained to the provisos (\$273,241), which had a broad, general mission without measurable objectives, no monitoring plan, and an absence of any form of oversight and accountability to taxpayers.

This investigation has a lesson for every agency in state government. Virtually every agency accomplishes aspects of its mission through third parties using contracts or grants, which require monitoring skills to effectively manage, as well as provide basic accountability to taxpayers. Ample organizational research identifies contract/grant monitoring 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. A cursory review of grants from state agencies determined those grants provided from federal funds tended to have mandated federal grant monitoring protocols, while state funded grants' monitoring mechanisms varied to a greater extent. Absence of a central standard leads to varying levels of quality among agencies in their respective contract/grant programs.

A formalized contract/grant monitoring program promotes the simple management concept of aligning, as well as solidifying, agency and contractor expectations on the front end, and then monitor in a cost/effective manner to identify problems as early as possible when problems are easier to fix. The monitoring plan provides reasonable assurance the state is getting the results set forth in the contract or grant. The plan can be simple or complex depending on the complexity of the contract/grant, its value, and the risk of poor performance. Contract/grant monitoring prevents poor performance, but also serves as a deterrent to more egregious conduct, such as fraud and diversion of funds. A wise Ben Franklin noted, “an ounce of prevention is worth a pound of cure.” The same can be said about adequate internal controls through contract and grant monitoring programs.

Recommendation #1: Given the absence of central standards, each Agency Head should consider reviewing their contract and grant monitoring programs, policies, procedures, and training which add effectiveness to operations, as well as accountability to taxpayers.

Recommendation #2: Each Agency Head should ensure provisos are treated the same as any funding to third parties which requires a monitoring plan with objectives and measures for success to provide reasonable assurance funds are used consistent with legislative intent with accountability to taxpayers.