The State Inspector General's Annual Report of Fraud Conducted by Executive Branch State Employees Fiscal Year (FY) 2022-23

The State Inspector General (SIG) tracks fraud conducted by executive branch employees against state agencies. This is done to assist these agencies in their investigations; to serve as an <u>indicator of integrity</u> within the Executive Branch workforce; and to transparently report to the public to maintain its confidence in the integrity of State government. At this time, the SIG does not track fraud conducted by external parties against the State, such as tax, Medicaid, pharmaceutical diversion, SNAP, unemployment insurance, or contract fraud, most of which are investigated by sworn law enforcement personnel residing in the respective state agencies.

The SIG identifies Executive Branch employee fraud through mandatory reporting by each agency, law enforcement reporting, agencies' annual reports to the Office of the Comptroller General, the Office of the State Auditor, and open source reporting. In FY 2022-23, the SIG received two notifications of potential fraud involving two Executive Branch employees at three state agencies, which resulted in estimated losses of $12,000 in the below categories:

Fraud Scheme Category	Reported Incidents	Employees Involved	Fraud Losses by Scheme
Embezzlement	1	1	$10,000
Theft	1	1	$2,000
TOTALS	**2**	**2**	**$12,000**

Below is a year-over-year comparison of the reported fraud schemes for the past four FYs:

Fraud Scheme Category	Reported Incidents				Total Reported Losses			
	FY2022-23	FY 2021-22	FY 2020-21	FY 2019-20	FY2022-23	FY 2021-22	FY 2020-21	FY 2019-20
Bribery/ Kickbacks	0	2	0	0	$0	$760	$0	$0
Misuse of State Funds	0	2*	0	0	$0	$31,100	$0	$0
Contract/Grant Fraud	0	1	0	0	$0	$0	$0	$0
Procurement Fraud	0	0	0	0	$0	$0	$0	$0
Embezzlement	1	0	1	0	$10,000	$0	$17,300	$0
Theft	1	0	1	0	$2,000	$0	$77,000	$0
Conflict of Interest/ Business Relationship	0	0	3	1	$0	$0	$16,000	$0
Fleet Card Fraud	0	0	0	0	$0	$0	$0	$0
Totals	2	5	5	1	$12,000	$31,860	$110,300	$0

*One incident contained two subjects.

The following observations were made following an analysis of FY 2022-23:

- FY 2022-23 reported losses of $12,000 are less than the average of the three previous fiscal years of $47,387.

- FY 2022-23 incidents (2) represent a 45% decrease of the average number of incidents of the three previous fiscal years.

- The job levels for the two Executive Branch employees reported for fraud included one executive/upper-level manager and one front-line employee.

- The two fraud schemes were identified by internal sources reporting incidents to law enforcement authorities.

- One scheme resulted in the termination and arrest of a state employee; and another scheme resulted in the voluntary resignation of a state employee and the arrest of the employee's spouse.

A consistent trend in the reported frauds for the past four fiscal years revolve around accountability in internal controls. The higher the employee's level has been in the organization, the greater the employee's access to larger funds, and thus led to correspondingly higher losses.

The repeated decline in reported frauds over the past four fiscal years leads the SIG to, again, take note that agencies may be underreporting fraud and may be instead choosing to terminate employment of those suspected or found to have engaged in fraud against a state agency without any further consequences. This is a common theme reported by some statewide internal auditors.

The two reported fraud incidents totaling approximately $12,000 indicates a continued low risk of employee fraud in the Executive Branch of state government. Included below is a vignette summary of the reported fraud matters, as well as a recap of lessons learned from other SIG investigations and reviews during FY 2022-23:

VIGNETTE – Fraud Conducted by Executive Branch State Employees in FY 2022-23

1. An employee of a state agency and the employee's spouse were investigated by internal agency investigators and law enforcement authorities regarding the theft/larceny of two items of state property during or about October 2022. The employee's spouse was arrested and charged with larceny. The state employee was administratively investigated for further involvement and subsequently resigned his/her position of employment.

2. An employee of a state agency occupying a senior management role embezzled earmarked agency funds for personal use and day-to-day living expenses. State law enforcement authorities investigated the matter in conjunction with the agency's own law enforcement personnel. The employee was subsequently terminated from employment and arrested for felony embezzlement.

Recap of Lessons Learned for Fiscal Year 2022-23

Procurement Policies and Code of Conduct – Agencies should adhere to the SC Consolidated Procurement Code and the State Ethics Commission in the awarding of contracts and regarding conflicts of interest. Agencies should provide training to staff on the policies and procedures for procurement. Agencies should also conduct an employee affirmation and review of the their code of conduct to confirm that employees have read and understand them.

Span of Control & Separation of Duties – Separation of duties ensures proper oversight and review to avoid errors. It serves as an internal control requiring more than one person to handle transactions and is intended to prevent fraud and error.

Internal Controls & Standard Operating Procedures – Maintaining current policies and procedures is imperative to the operations and management of an agency and its employees. Agencies should develop and maintain updated internal procedures governing processes for the management and control of the organization. They should also maintain proper supervisory oversight of employees.

Below is an Association of Certified Fraud Examiners (ACFE) report that the SIG provides to agency leaders to raise awareness concerning fraud to state employees.

[ACFE Occupational Fraud 2022: A Report to the Nations](#)

[Lessons Learned – FY 2022-23](#)