

The State Inspector General’s Annual Report of Fraud
Conducted by Executive Branch State Employees
Fiscal Year (FY) 2019-20

The State Inspector General (SIG) tracks fraud conducted by Executive Branch employees against state agencies to assist these agencies in their investigations; serves as an indicator of integrity within the Executive Branch workforce; and transparently reports to the public to maintain its confidence in the integrity of State government. At this time, the SIG does not track frauds conducted by third parties against the State, such as tax, Medicaid, pharmaceutical diversion, SNAP, 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 2019-20, the SIG received one (1) notification of potential fraud involving one (1) Executive Branch employee at one (1) state agency, which resulted in no loss in the below category:

Fraud Scheme Category	Reported Incidents	Fraud Losses by Scheme
Conflict of Interest	1	\$0
TOTALS	1	\$0

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			
	FY 2019-20	FY 2018-19	FY 2017-18	FY 2016-17	FY 2019-20	FY 2018-19	FY 2017-18	FY 2016-17
Procurement Fraud	0	2	1	0	\$0	\$0	\$0	\$0
Contract/Grant Fraud	0	1	0	1	\$0	\$0	\$0	\$650,000
Embezzlement	0	0	2	2	\$0	\$0	\$2,252	\$94,000
Theft of Funds	0	1	1	0	\$0	\$1,400	\$29	\$0
Bribery / Kickbacks	0	0	0	1	\$0	\$0	\$0	\$0
Conflict of Interest/ Business Relationship	1	0	1	0	\$0	\$0	\$0	\$0
Fleet Card Fraud	0	3	0	0	\$0	\$1,506	\$0	\$0
Totals	1	7	5	4	\$0	\$2,906	\$2,281	\$744,000

Analysis of FY 2019-20 results developed the following observations:

- FY 2019-20 losses (\$0) were down 100% from FY 2018-19 and 100% below the average of the three previous FYs (\$249,729). The FY 2019-20 incident (1) was the least number of agency reported frauds of the prior four FYs.

- For FY 2019-20, the job level for the one executive branch employee reported for fraud was at the supervisory level.
- The one fraud scheme reported was identified through external (non-state employees) sources reporting suspicious activity.

A common element found in the reported frauds for the past four fiscal years was lax internal controls. As a fraudster rises in management, it provides greater opportunity to override internal controls, access to larger funds/assets, and increases the ability to conceal by extending the length of the fraud, all of which lead to proportionally larger losses than schemes perpetrated by front-line employees.

This one reported fraud reinforces the fundamental principles to prevent fraud: 1) raise employee awareness to report suspicious activity, and 2) managers properly executing routine existing internal controls in a thorough manner. Given the decline in reported frauds over the past four fiscal years, the SIG again takes note of the fact agencies may be underreporting fraud and choosing instead to terminate the employment of those found to have engaged in fraud against the state agency without further consequence. This is a common claim made by some statewide internal auditors.

In summary, the one reported fraud incident totaling \$0 indicates a low risk of employee fraud in the Executive Branch. Although no major fraud in the six-figure loss range was reported, agency heads and financial managers should take note of smaller fraud schemes as potential weaknesses in internal controls. A major fraud can potentially damage an agency's reputation and undermine the public's confidence in the Executive Branch. State government agencies are essentially a large partnership, where a negative event caused by one agency has the tendency to undermine the public's confidence in all State agencies.

Administrative Note: Included below is a vignette summary of the one reported fraud matter, as well as a recap of lessons learned from other SIG investigations and reviews during FY 2019-20.

VIGNETTE – Fraud Conducted by Executive Branch State Employees in FY 2019-20

1. The SIG received an external complaint that a supervisory employee at a state agency had a conflict of interest and was assisting a citizen with obtaining state funds that he/she was not eligible to receive. A SIG investigation determined this allegation to be unfounded, and there was no evidence that fraud occurred in this matter. No internal control weakness was identified. Total fraud loss: \$0.

Recap of Lessons Learned for Fiscal Year 2019-20

Cost Benefit Analysis – Agencies should consider conducting a cost benefit analysis to determine the advantages and disadvantages when creating state run programs to ensure the economical and appropriate use of federal and state resources.

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 its processes for the management and control of the organization, and supervisory oversight of employees.

Listed below are four reports and red flags for use by agency heads in bringing fraud awareness to state employees:

[Association of Certified Fraud Examiners \(ACFE\) / 2020 Report To The Nations](#)

[ACFE Infographic - Behavioral Red Flags of Fraud](#)

[ACFE Infographic - Internal Control Weaknesses](#)

[Department of Justice Finds Evidence Of Paycheck Protection Program \(PPP\) Loan Fraud](#)