

Office of the State Inspector General

Patrick J. Maley



State Inspector General Accountability Report Fiscal Year 2012 – 2013

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I. Executive Summary

The SIG's 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; annual expenditures exceeding 20 billion dollars; and 58,000 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 to achieve the objectives of ensuring a high integrity work force and increase the cost/effectiveness of Executive Branch operations. If the SIG is successful in these two objectives, a third objective will inherently be achieved--increase the public's trust and confidence in our State's government.

To accomplish these objectives, the SIG requires a dual skill set. The SIG embraces the taxpayer watchdog role which adds value by solving individual problems and fixing individual accountability. However, if the SIG only investigated allegations, then wrote reports on fraud, waste, and abuse (FWA), it would be tantamount to the carnival game of "whack-a-mole"—a game with no end. The real challenge is to prevent and deter FWA in the first place. It is also the SIG's role to be an organizational doctor, where it strives to fix root causes and not just chase after symptoms. The SIG must exercise both skill sets for long-term success.

The SIG's authorized strength in FY 2013-2014 is seven employees. Outwardly, this appears as a daunting mission for only seven people; however, seven people can address this mission with a systems strategy approach that taps into the energy of 100 Agency Directors, 7900 managers, and 50,000 front-line employees. The SIG will design its selection of cases and systems to reinforce, refresh, and educate the 8000 hard working Executive Branch managers by bringing focus to the two fundamental foundations of an effective organization: 1) high integrity workforce and 2) a well honed management framework where a legislative mission is translated into operational objectives, then executed through tactical strategies and processes into measureable results aligned with objectives.

The organization-wide benefit of SIG activities is to create an environment, either through an "organizational doctor" encouragement or "taxpayer watchdog" fear, where Executive Branch leaders re-examine their management framework, primarily strategies & execution processes, to improve performance and learn from examples of FWA instances across the entire Executive Branch.

The SIG operated with two investigators during FY 2012-2013, the Inspector General himself and one administrative support. The SIG's results in the first year are categorized as both administrative, predominantly establishing a new independent agency, and substantive investigative results.

The administrative results pertain to establishing a new independent agency of State government, which include:

- Implemented the enacting legislation into a focused agency mission statement;
- Communicated this mission statement in a variety of personal contacts and written communication to Executive Branch and Legislator leadership, as well as to the rank of file of both branches;
- Established points of contacts in the 106 Executive Branch agencies, universities, boards, and commissions to develop two way dialogue on reporting potential investigations, as well as the SIG delegating cases from its “hotline” to agencies to action;
- Developed SIG standard operating procedures, both administratively and operationally;
- Developed, advocated, and received the SIG’s first full-year budget; and
- Managed funding shortfalls in the SIG’s start-up FY 2012-2013 budget through negotiations and arrangements of support through other Executive Branch agencies.

Substantive results are set forth in formal reports and letters of findings as follows:

- 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. The review recommended establishing a Chief Information Security Officer (CISO) and hiring a national subject matter expert to implement a statewide INFOSEC program, which were adopted by the Budget Control Board and currently being implemented through proviso and pending legislation.
- 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.
- 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 along with recommendations to improve.
- 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 \$462,000 in false billings or diversion of grant of proviso funds from three State agencies, which also yielded valuable insight in how the state agencies monitor grants and contracts. Most importantly, it identified a statewide weakness in the lack of a central contract/grant monitoring standard which leads to varying levels of quality among agencies in their respective contract/grant programs.

- 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 10.3%, which extrapolated to estimate benefits paid in error totaling \$406.3 million (17.2%). Audit and consulting determined DHHS successfully addressed the audit findings, which could be further improved with SIG recommendation with the net savings in the multi-million dollars.

The SIG’s broad statutory mission statement was executed with the following seven strategies designed to cost/effectively promote integrity, effectiveness, and public trust in state government:

- Develop a mechanism to identify operations in the Executive Branch with high risk of significant waste and performance indicators, and then conduct prioritized reviews.
- Maintain a “zero tolerance” threshold pertaining to employee integrity allegations, which principally include fraud and corruption.
- Investigate allegations of serious misconduct by senior Executive Branch employees on a case-by-case basis to maintain integrity in its leadership and confidence with the public.
- Will proactively make recommendations to the Legislative and Executive Branches to strengthen public integrity laws and implementation policies, respectively.
- Serve as a central and confidential repository for state employees, as well as the public, to provide information to improve government performance, also known as “fraud, waste, and abuse,” often through the SIG’s hotline.
- For unique & special Executive Branch-Wide issues, lead a task force of agency subject matter experts on a state-wide process/procedure/topic which benefits from the independence, strategy, and rigor of an SIG report due to sensitivities of entities with equities at stake in the outcome.
- The SIG provides a value-added service, along with a real dose of accountability, in the above strategy, as well as provides “lessons learned” feedback through “SIG Alerts” or annual reports to Executive Branch agencies on all strategies. This then leads to the most important objective—creating an organization-wide environment for Executive Branch leaders, motivated either through “organizational doctor” encouragement or “taxpayer watchdog” fear, to re-examine their strategies & execution processes to improve performance, and learn from examples of fraud, corruption, waste, and serious misconduct instances across the entire Executive Branch.

The SIG’s key operating challenge in this new, unique agency is building trust and educating all Executive Branch employees, particularly its leadership, and the Legislative Branch leadership of the SIG’s mission and capabilities. This will then lead to both formal and informal information channels for high impact case initiations for fraud, waste, and abuse. A review of the past FY’s output serves as a reminder that the best cases don’t “walk in the door” or a hotline call, but rather require relationship building to gain sufficient broad situational awareness to identify those cases having the highest impact on the SIG’s mission of improving integrity and effectiveness in the Executive Branch.

II. Organizational Profile

The SIG's organizational profile is set forth in accordance with report guidance as follows:

Main Products: The SIG provides investigative, evaluation, and auditing services on fraud, waste, and abuse (FWA) issues impacting the Executive Branch (EB). The end products are reports with findings and recommendations to promote both individual and agency integrity and accountability with the overarching goal of being a change agent enhancing the EB's efficiency and effectiveness.

Key Customers and Expectations: The SIG's prime customer is the public and its interest in state government using tax dollars wisely in a high integrity environment. To meet this customer expectation, key individual customers groups identify areas of potential FWA to include legislative oversight committees, agency heads, and state employees through hotline tips. These expectations are managed by clearly setting out the SIG's priorities given limited resources, but also providing confidence the SIG will ensure information it receives below its priority threshold will be referred to appropriate agency and for appropriate attention and follow-up.

Key Stakeholder Groups (other than customers): The SIG's stakeholders are its customers. Those customers (legislative oversight; Agency Heads; and the public) with the information on potential FWA which generate SIG investigations, audits, and reviews ultimately are the beneficiaries of SIG report to improve integrity, accountability, efficiency, and effectiveness within the EB.

Key Partners: The SIG's key partners are the entities that support both intelligence flows into the SIG for potential cases and assets to leverage during cases. The key partners within the legislator are the full-time staffers who represent oversight committees; agency internal audit departments to facilitate SIG on-site reviews and record acquisition; peer investigative units; the media for potential case leads and fairly reporting results; and the general State employee population who the SIG depends on for FWA intelligence through the hotline.

Operating Location: The SIG has only one physical central office in Columbia. However, as a field operation entity, the SIG has designed its operations, in terms of technology and logistical support, to allow investigators to operate independently in the field, often working within State agencies under review.

Employee Population Description: The SIG has seven employees and operates a low overhead operation with everyone on the front line. The office's one administrative support operates the toll free hotline, as well as basic office support. The five investigative staff is composed of a broad investigative skill set with emphasis on audit, investigations, and organizational operations. The Inspector General serves as Agency Head, first-line supervisor, and works cases as well.

Regulatory Environment: The SIG operates under South Carolina state law. It has no administrative regulations specific the SIG. During 2013, the SIG will be implementing its own internal policies that will be consistent with the Association of Inspector Generals Standards, which is a form of compliance with outside entity criteria but certainly short of administrative regulations.

Performance Improvement System: The SIG operates two systems. First, for personnel, the SIG conducts quarterly file reviews with each employee assessing work product, work behaviors, and overall performance, which then feeds into the annual performance appraisal system for personnel. From an organizational perspective, the SIG conducts monthly squad meetings, for both case specific issues and overall areas to improve operations. This feeds into a formal quarterly review of agency objectives compared to results and necessary course corrections are made. Annually, at the end of the FY, the SIG prepares its annual report for the legislature and Governor which also serves as the formal platform in organizational evaluation and planning for the next fiscal year.

Organizational Structure: The SIG has six front line workers (five investigators; one administrative support) and one manager, the Inspector General himself.

Expenditures/Appropriations Chart: See Attachment A.

Major Program Areas Chart: See Attachment B.

III. Elements of Malcolm Baldrige Criteria

The SIG's element of Malcolm Baldrige criteria are set forth in accordance with report guidance as follows:

1. Senior Leadership, Governance, and Social Responsibility

The SIG is lead by the Inspector General who views leadership in this new organization along three dimensions. First, lead agency personnel, which total six subordinates, all front line professionals. Exercising leadership in personnel starts with selection, which the Inspector General accomplished in his first 12 months through recruiting and selecting an incredibly talented staff, particularly noteworthy given state government's salary structure. The staff includes: a retired Chief Financial Officer with 40 years experience; an internal auditor with 30 years State experience; and four retired FBI investigators with 110 years of investigative experience, emphasizing fraud, corruption, and analysis, with each starting "on the street" and retiring in executive leadership positions. Despite this group's impressive resumes, the Inspector General ingrains the mission and tactical nuances in working within State government in day-to-day communications with staff and provides closer supervision and staff coordination when investigators are working in areas outside of their subject matter expertise.

Secondly, educate customers on this new agency's mission, services, and capabilities through a structure outreach program with the entire legislative leadership, every major Agency Head, and the Governor's Office. This outreach emphasized personal meeting supplemented with a broader communication strategy through emails and personal letters, speeches, and group presentations. The outreach has to be backed up with a body of work, and this small agency's staff of two investigators during FY 2012-2013 delivered three high impact reports in the areas of statewide information security, statewide prescription drug strategy, and issues impeding the \$27 billion Retirement System Investment Commission. These reports have created the capital to further market the SIG's role in State government, particularly with enhanced investigative resources in the upcoming FY.

Third, develop partner relationships with intelligence flows and resources to leverage SIG cases. Relationships have been established with every relevant law enforcement and peer State investigative entity. Within the 106

agency, commissions, and universities in the EB, a single point of contact has been established at each to facilitate two way communications on potential cases and dissemination of information from the SIG, often from it hotline. As an example, five agencies contributed personnel to the SIG's information security imitative which expedited this review's completion in 40 days from start to finish.

The SIG's mission is to both prevent FWA and conduct audits, reviews, and investigations on FWA having the most significant impact in terms of cost savings or increase effectiveness. Cost saving or increased effectiveness have the most impact when the case under review leads to statewide improvements in policies and systems. Fortunately, the Inspector General can measure these outcomes based on published reports. As evident in the results portion of this report, the SIG's \$311,000 FY 2012-2013 budget was recovered many times over, possibly exponentially many more times, based on its first year's results. From a leadership perspective, the key is to emphasized quality case initiations create the best opportunities for success because as often said in the investigative profession, 'it takes just as long to work a dog case as a great case.' The Inspector General' leadership emphasized developing the intelligence base to ensure quality case initiations.

The SIG's community contribution is more within the State government community at this time. The understanding of FWA is a poorly understood concept, often given lip service rather than substantive action. The outreach has stressed the area of waste is generally not the traditional stories of \$800 hammers, warehouses full of obsolete computers still new in the box, and every state has a "bridge to nowhere." In reality, waste is no more than mismanagement. Mismanagement in its worse form is leading an operation doing well intentioned activity but its end results add no value to the public good. No matter how efficient an operation is, if it is aimed at the wrong target not impacting an agency's objectives, it is a failure. The traditional form of mismanagement is just poor leadership where all the factors of production—people, processes, and technology—look more like a Ford Pinto than a Mercedes. With 58,000 employees and \$20 billion dollars of activity, the real savings to the taxpayers is looking for the pockets of dysfunction and complacency. Finding these pockets will save money, but the SIG can't even touch the all the potential savings in State government. Its ultimate goal is to use its cases as examples, coupled with other initiatives, to stress to every manager the need to reexamine their own strategies and execution to continually improve operations.

2. Strategic Planning

This new agency's mission was established by statute to address FWA. The Inspector General offices in other states vary widely in how this broad mandate is structured into meaningful objectives followed by tactical strategies to execute. The SIG spent the first half of FY 2012-2013 gaining input from customers and partners. Certainly fraud and corruption (criminal and ethical abuse of position) were important, but waste seemed to be the highest concern given State government's highly decentralized and fragmented environment inhibiting oversight. Through actual investigations and reviews during the latter half of FY 2012-2013, it became clear fraud and corruption were a higher risk than customers and partners initially assessed. All this input was solidified in concrete objectives with pragmatic tactical strategies to execute with the following seven strategies designed to cost/effectively promote integrity, effectiveness, and public trust in state government:

1. Develop a mechanism to identify operations in the Executive Branch with high risk of significant waste and performance indicators, and then conduct prioritized reviews.
 - a. Continuously refresh and develop relationships with key constituents, to include Agency Directors, internal audit community, other investigative entities with venue in the Executive

Branch, and Legislative leadership and staff in order to glean leads on potential cases of significance and merit;

- b. Meet each House and Senate Committee Chairman and brief them on the SIG's mission and capabilities, which includes acting on legislative requests for investigations in the Executive Branch involving significant waste and accountability issues;
 - c. Emphasize specific issues to generate narrowly focused investigations that not only address issue under review, but have potential for lessons learned impacting the entire Executive Branch;
 - d. Deploy a preliminary investigation (PI) process to maximize cases scoped out for significant waste and performance issues, yet conserve resources to devote to those cases, known as full investigations (Full), with the highest potential. This PI approach allows the SIG more "contact" with the Executive Branch to maintain a healthy presence. Closed PIs add value through a cursory review of operations that does not provide assurance, yet conducts enough review to determine there is likely not a significant issue of FWA;
 - e. Enhance outreach program to push education regarding the SIG's mission/capabilities through multiple mechanisms to Executive Branch employees;
 - f. Communicate "lessons learned" with "SIG Alerts" during the year; and
 - g. Results are measured in impact defined as cost savings, enhanced effectiveness, or a combination of both, preferably at the statewide or agency level;
2. Maintain a "zero tolerance" threshold pertaining to employee integrity allegations, which principally include fraud and corruption.
 - a. Require all state agencies to affirmatively report all fraud/corruption allegations to the SIG;
 - b. Provide "one-stop shopping" for allegations, swift initial assessment, and then facilitates a coordinated law enforcement response; and
 - c. Publish an annual report of the impact of fraud/corruption on state government emphasizing "lessons learned" and internal control recommendations.
 3. Investigate allegations of serious misconduct by senior Executive Branch employees on a case-by-case basis to maintain integrity in its leadership and confidence with the public.
 - a. Market its capabilities to conduct executive misconduct investigations to Agency Directors, which can provide them an independent investigation to enhance acceptance of results for internal morale and external confidence, as well as produce a product for a fair personnel adjudication, if warranted; and
 - b. Maintain vigilance through all sources of information, to include the media, for potential cases where the SIG may self-initiate an independent investigation deemed necessary to be in the public's best interest.

4. Will proactively make recommendations to the Legislative and Executive Branches to strengthen public integrity laws and implementation policies, respectively.
 - a. Meet with each Chairman of the House and Senate Ethics Committee to provide the SIG's input as proposed ethics reforms impacting the Executive Branch;
 - b. Establish an ethics component as an integral part of the SIG's outreach program provided in a number of high profile forums to market the SIG's mission and capabilities; and
 - c. Develop a mechanism for situational awareness of all complaints at the Ethics Commission for lead potential.
5. Serve as a central and confidential repository for state employees, as well as the public, to provide information to improve government performance, also known as "fraud, waste, and abuse," often through the SIG's hotline.
 - a. Action pertinent information with investigations and reviews by the SIG;
 - b. Route information not actioned by the SIG in a manner to prevent compromising any confidentiality to the appropriate state agency for follow-up, which may or may not require a formal report back to the SIG based on its significance; and
 - c. Provide a healthy feedback mechanism to state government Agency Heads, such as quality of service, leadership issues, or personnel matters.
6. For unique & special Executive Branch-Wide issues, lead a task force of agency subject matter experts on a state-wide process/procedure/topic which benefits from the independence, strategy, and rigor of an SIG report due to sensitivities of entities with equities at stake in the outcome.
 - a. In FY 2013-2014, develop pilot program presentation for the Budget Control Board (BCB), Governor's Office, and key legislative staff to inspect agencies' organizational objectives, strategies, metrics for success, and information systems to manage this process. This will provide a quality control on annual Accountability Reports, sensitize agencies on the need to focus on these key operational areas, and provide a unique developmental opportunity for mid-level executives participating with the SIG on these reviews; and
 - b. In FY 2013-2014, develop pilot program presentation for the BCB, Governor's Office, and key legislative staff to consider implementing leadership & climate surveys in EB agencies on an annual basis.

7. The SIG provides a value-added service, along with a real dose of accountability, in the above strategy, as well as provides “lessons learned” feedback through “SIG Alerts” or annual reports to Executive Branch agencies on all strategies. This then leads to the most important objective—creating an organization-wide environment for Executive Branch leaders, motivated either through “organizational doctor” encouragement or “taxpayer watchdog” fear, to re-examine their strategies & execution processes to improve performance, and learn from examples of fraud, corruption, waste, and serious misconduct instances across the entire Executive Branch.

These objectives, strategies, and initiatives have been briefed on multiple occasions to staff. Staff will be allocated by specialization to relevant areas suiting their backgrounds, while also helping other investigators as needed to broaden the entire staff’s skill set over time.

The SIG reviews conduct monthly squad meetings, for both case specific issues and overall areas to improve operations. This feeds into a formal quarterly review of objectives compared to results and necessary course corrections are made. Annually, at the end of the FY, the SIG prepares its annual report for the legislature and Governor which also serves as the formal platform in organizational evaluation and planning for the next fiscal year.

Many of these objectives and strategies have a recurring process quality representing a core business of the SIG, which have no end or timeline. Results are measured by the reports completed by the process rather than a project with a finite end. However, four initiatives to be implemented during FY 2013-2014 are noteworthy and set forth to illustrate the proactive nature of the SIG:

SIG Initiatives to Systematically Address Statewide Fraud, Abuse & Waste

<u>Mission Element</u>	<u>Current State Illustration</u>	<u>Initiative to Improve</u>	<u>Anticipated Benefits</u>
Fraud	Only four cases of fraud reported in all of State government for FY 2012-2013	All agencies will report all fraud allegations to the SIG	<ol style="list-style-type: none"> 1) Ensure fraud and the perception of fraud is rigorously addressed, and end the perceived practice of silent employee terminations 2) The SIG will establish a one stop shop to assist with forensic accounting and the coordination of the appropriate law enforcement response 3) Ensure “lessons learned’ from frauds are disseminated to improve the State agencies’ internal controls 4) Increase deterrent by increasing potential for detection and accountability 5) Assurance to the public of highest integrity standards and fiduciary stewardship of taxes
Abuse	Only one adjudicated ethics violation case for abuse of position misconduct in FY 2012-2013 (all others compliance violations)	Engage Legislative leadership and the Governor on adoption of the highest ethical standards possible	<ol style="list-style-type: none"> 1) Setting the highest ethical standards as a cornerstone to improve trust recognizes the public’s concern 2) Maintenance and promotion of high ethical standards crystallize and clarify the line between appropriate conduct and misconduct, which also protects State’s employees from the slippery slope, often inadvertently 3) Increase deterrent by increasing potential for detection and accountability 4) The State’s employees are protected from unfair criticism because the processes underpinning these high standards provide veracity of conduct to minimize misperceptions
Waste	A)The Executive Branch possesses no capacity for independent audits of agencies’ fundamental business components: objectives, strategies, information systems to monitor execution, and results.	Establish an audit process for fundamental business components under the SIG leveraging managers and auditors across all state government agencies which also provides valuable professional development	<ol style="list-style-type: none"> 1) Provide audits to agencies on a recurring basis, which will enhance operations 2) Motivates all other agencies to examine their own corporate business components in anticipation of future audits
	B)The Executive Branch has no systematic statewide capability to understand and develop its #1 asset—personnel	Encourage pilots of annual climate and leadership surveys followed by statewide deployment and implementation	<ol style="list-style-type: none"> 1) Climate surveys provide systematic input at the agency level to help both agency heads and legislative oversight on the two key indicators of waste---employee engagement and leadership 2) The surveys identify possible pockets of leadership or unit dysfunction stimulating agency action 3) An annual process builds long-term track records to measure and assess development, both in individual leaders and the agency

3. Customer Focus

The SIG's prime customer is the public and its interest in state government using tax dollars wisely in a high integrity environment. To meet this customer expectation, key individual customers groups identify areas of potential FWA to include legislative oversight committees, agency heads, and state employees through hotline tips. These expectations are managed by clearly setting out the SIG's priorities given limited resources, but also providing confidence the SIG will ensure information it receives below its priority threshold will be referred to appropriate agency and receive appropriate attention and follow-up.

The SIG's stakeholders are its customers. Those customers (legislative oversight; Agency Heads; and the public) with the information on potential FWA which generate SIG investigations, audits, and reviews ultimately are the beneficiaries of SIG report to improve accountability, efficiency, and effectiveness within the EB.

Customers' requirements are consistent: improve the integrity, efficiency, effectiveness, and accountability of the EB. The emphasis is on cost saving or improved effectiveness. Integrity is developed through proactive preventive/deterrence programs, as well as individual accountability when appropriate.

The SIG maintains its customer focus through constant interaction in outreach efforts, both formal and informal. This emphasis on intelligence to drive case initiations keeps the SIG's situational awareness high of current conditions in State government relevant to the SIG's mission objectives.

Feedback is generally informally after the issuance of a report. Again, the never ending outreach to glean intelligence also serves as a highly reliable feedback mechanism on current work products and investigators in the field.

4. Measurement, Analysis, and Knowledge Management

The SIG's mission is to both prevent FWA and conduct audits, reviews, and investigations on FWA having the most significant impact in terms of integrity, cost savings or increase effectiveness. Cost saving or increased effectiveness have the most impact when the case under review leads to statewide improvements in policies and systems. Fortunately, the Inspector General can measure these outcomes based on published reports. As evident in the results portion of this report (III-7), the SIG's \$284,000 FY 2012-2013 budget was recovered many times over, possibly exponentially many more times, based on its first year's results. Given the SIG's project workflow, the most important element in the SIG's success is initiating the cases with the most potential impact. This requires investment in an intelligence gathering outreach with customers and partners, and then a collective assessment by the SIG team of cases with the high potential impact. The Inspector General' strategy emphasizes developing the intelligence base to ensure quality case initiations, which then requires measuring this key factor during quarterly file reviews with investigators. If investigators originate quality cases, then given the talent of the investigators recruited, the impact results will inherently be realized.

The SIG measures its preventative/deterrence objective through both activity and production measures in the area of fraud program and the procurement fraud initiative. Specific investigators are assigned these areas, and as each prevention program matures, metrics will be established and ready by the next FY.

The "knowledge assets" are currently housed in the collective experience, observations, and insight from an experienced staff. This is harvested through formalized monthly squad meetings where data on intel, trends,

potential cases, and items of interest are orally shared resulting in a formalized “action” document disseminated to the team and appropriate future reminder set. As the SIG matures, intelligence reports will be implemented to support this process for long-term success. However at the current time when personnel are building capacity and working cases, the informal process is most efficient and effective.

5. Workforce Focus

The emphasis in developing the workforce for a new agency is recruiting and selecting employees with a high skill set which was accomplished as illustrated by the investigative staffs’ resumes: a retired Chief Financial Officer with 40 years experience; an internal auditor with 30 years State experience; and four retired FBI investigators with 110 years of investigative experience, emphasizing fraud, corruption, and analysis, with each starting “on the street” and retiring in executive leadership positions. The Inspector General also served as a frontline auditor, evaluator, and inspector within the FBI’s Inspection Division culminating in its highest operational executive position as the Chief Inspector of Operations & Audits. The SIG has the technical skills and, more importantly, the experience and judgment needed to sort out complex situations to provide decision makers relevant, timely data that makes a difference. The administrative support employee has 25 years state government experience and is highly skilled in the administrative functions of State government.

In a new organization, it is critical to have well honed policies and procedures, and then dedicated training to ensure employees execute as planned. A great deal of effort has gone into developing SIG administrative and operation policies and procedures to ensure all new employees can quickly acclimate to the SIG and become productive investigators. A crucial part of this process has been integrating a workflow, as well as planning technology to accommodate field work by investigators in off-site locations.

The third area of emphasis is on cross-training. Investigators will be assigned FWA work based on subject matter expertise. To cross-train all investigators, a team approach will be deployed where investigators will surge to help other investigators and learned “on-the-job” areas of the broad SIG skill set of audit, review, and investigations. Within a year, investigators will be assigned as the lead investigator in areas outside of their subject matter expertise, but supported by a mentor to fully round out all investigators skill sets.

All investigators will attend certification in their area of specialty at the Association of Inspector General Institute. The SIG will encourage investigators becoming Certified Fraud Examiners.

The investigative team assembled is motivated by important work and challenges that make a difference in State government. The Inspector General’s emphasis this first full year will be ensuring a robust intelligence base to ensure a steady flow of quality cases which will motivate the investigators. The Inspector General will establish a collaborative environment where teamwork is rewarded, which is highly motivating to staff selected. The emphasis on high quality hires with experience allows the Inspector General to save time in technical training and also allow these season investigators to work in a highly professional environment where autonomy, within guidelines, motivates them. The majority of personnel are former FBI, and it has been easy to establish that same esprit de corp for the mission and consider the squad family which makes every aspect of work more enjoyable and rewarding.

6. Process Management

The SIG has administrative and operational processes. The administrative processes are honed to simplify and minimize overhead requirements to keep employees focused on operations.

Operational processes pertain to the protocols for audits, reviews, and investigations. These three types of functional activity use the same processes: Intelligence to initiative quality cases; preliminary inquiry to notice involved agencies and fully scope allegations/issues; and a full investigation requiring a plan of action to complete the audit, review, or investigation. In each step, supervisory approval is required to ensure quality, thoroughness, and completeness. During FY 2013-2014, the SIG processes will be reviewed and modified to be fully compliant with the “Principles and Standards for Offices of Inspector General.”

Despite a common framework for all functions, the unique and deep experience of the staff will be gleaned monthly to considered enhancements to this general framework, as well as education to the staff on the idiosyncrasies of audit, reviews, and investigations. A library for reports and work papers will be established to serve as a repository for staff to use in crafting future report and documenting investigations.

At the beginning of each FY, all administrative and operational processes will be reviewed for enhancements to simplify and add value.

7. Results

The SIG operated with two investigators during FY 2012-2013, the Inspector General himself and one administrative support. The SIG’s results in the first year are categorized as both administrative, predominantly establishing a new independent agency, and substantive investigative results.

A. Administrative Results

The administrative results pertain to establishing a new independent agency of state government. These results include:

- Implemented the enacting legislation into a focused agency mission statement;
- Communicated this mission statement in a variety of personal contacts and written communication to Executive Branch and Legislator leadership, as well as to the rank of file of both branches;
- Established points of contacts in the 106 Executive Branch agencies, universities, and commissions to develop two way dialogue on reporting potential investigations, as well as the SIG delegating cases from its “hotline” to agencies to action;
- Developed SIG standard operating procedures, both administratively and operationally;
- Developed, advocated, and received the SIG’s first full-year budget; and
- Managed funding shortfalls in the SIG’s start-up FY 2012-2013 budget through negotiations and arrangements of support through other Executive Branch agencies.

B. Substantive Results:

Substantive results are generally set forth in formal reports and letters of findings as follows:

- 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. The review recommended hiring a Chief Information Security Officer (CISO) and a national subject matter expert to implement a statewide INFOSEC program, which was adopted by the Budget Control Board and currently being implemented through proviso and pending legislation. Link to report at <http://oig.sc.gov/Documents/State%20Government%20Information%20Security%20Initiative%20Current%20Situation%20and%20A%20Way%20Forward%20Interim%20Report.pdf>.

- 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. Link to report at <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 had the benefit of clearing the air of several years of accusations and inferences undermining the public’s confidence in this agency managing \$27 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, along with recommendations, for the Agency’s management, as well as the Budget Control Board (BCB), to exercise leadership to resolve these major issues to enhance the efficiency and effectiveness of operations. Link to report at <http://oig.sc.gov/Documents/Review%20of%20Red%20Flag%20Indicators%20of%20Potential%20Wrongdoing%20At%20the%20Retirement%20System%20Investment%20Commission.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 \$462,000 in false billings or diversion of grant of proviso funds from three State agencies, which also yielded 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 is conducted by every agency, 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. Absence of a central standard leads to varying levels of quality among agencies in their respective contract/grant programs.

- A summary letter titled, “*Contract Monitoring*,” pertained to the SIGs assessment and concerns about state agencies’ contract monitoring capabilities. The Procurement Division, BCB, provides contract monitoring training, but it is 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 to establish standard policies, procedures, terminology, and training. Unlike INFOSEC, the state can quickly upgrade its capabilities by setting basic standards and guidance. A little training, structure, and common language, can 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 to letter 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 10.3%, which extrapolated to estimate benefits paid in error totaling \$406.3 million (17.2%). 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 also identified several small 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 to letter 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).
- Based on reports, the SIG has published three “*Lessons Learned Alerts*” for Executive Branch Agency Heads. Now the SIG work processes have been established, an inventory of cases developed, and new investigators added, the SIG should average a lesson learned of once of month, which adds value without overloading Agency Heads. Link to these alerts at <http://oig.sc.gov/Pages/Alerts.aspx>.
- Other significant activities not rising to the level of a formal report included input into the legislative committees on ethics reform pertaining to the Executive Branch; state disability retirement; use of state vehicles; two frauds; a corruption matter; and a number of single instances of wrongdoing.
- The SIG operates a “hotline” for the Executive Branch of state government. The hotline fielded hundreds of calls during the FY. Many calls are not pertinent to the SIG’s mission, and the caller was redirected to the appropriate state agency addressing their concerns. The SIG did log 205 complaint, which are listed below:

Agency	# complaints FY 2012-2013
Dept. of Social Services	50
Dept. of Health & Human Services	21

Dept. of Transportation	11
Dept. of Employment & Workforce	11
Dept. of Corrections	9
Dept. of Revenue	6
Budget Control Board	5
Private Company-nexus to state govt.	14
Federal Government	9
Local Government	7
Local School Boards	9
25 Agencies with 4 or less complaints	53
Total	205

These complaints originated from “hotline,” email, walk-ins, and state government referrals resulting in 15 investigations during FY 2013-2014. Many leads required scoping with record checks and limited interviews during the preliminary inquiry phase, which did not result in formal investigations. The vast majority of hotline and email complaints pertain to personnel issues or lower level leadership complaints in state agencies. This pattern was similar to other state Inspector General’s hotlines. However, the hotline provides a valuable asset to state government allowing a mechanism to identify all types of organizational issues, some relevant to the SIG and some unique to an agency, for review to improve. Further, providing this mechanism provides an outlet for venting organizational stress, which is healthy even if the complaint is not actionable.

Accountability Report Appropriations/Expenditures Chart

Base Budget Expenditures and Appropriations

Major Budget Categories	FY 11-12 Actual Expenditures		FY 12-13 Actual Expenditures		FY 13-14 Appropriations Act	
	Total Funds	General Funds	Total Funds	General Funds	Total Funds	General Funds
Personal Service			\$ 181,856	\$ 181,856	\$ 520,380	\$ 520,380
Other Operating			\$ 51,662	\$ 51,662	\$ 25,073	\$ 25,073
Special Items					\$ 703,000	\$ 3,000
Permanent Improvements						
Case Services						
Distributions to Subdivisions						
Fringe Benefits			\$ 50,919	\$ 50,919	\$ 67,701	\$ 67,701
Non-recurring					\$ 66,708	\$ 66,708
Total	\$ -	\$ -	\$ 284,437	\$ 284,437	\$ 1,382,862	\$ 682,862

Other Expenditures

Sources of Funds	FY 11-12 Actual Expenditures	FY 12-13 Actual Expenditures
Supplemental Bills		
Capital Reserve Funds		
Bonds		

Major Program Areas

Program Number and Title	Major Program Area Purpose (Brief)	FY 11-12 Budget Expenditures	FY 12-13 Budget Expenditures	Key Cross References for Financial Results*
	The investigation of fraud, waste and abuse in the Executive Department of the State	State: Federal: Other: Total: % of Total Budget:	State: 284,437.00 Federal: Other: Total: 284,437.00 % of Total Budget: 100%	
		State: Federal: Other: Total: % of Total Budget:	State: Federal: Other: Total: % of Total Budget:	
		State: Federal: Other: Total: % of Total Budget:	State: Federal: Other: Total: % of Total Budget:	
		State: Federal: Other: Total: % of Total Budget:	State: Federal: Other: Total: % of Total Budget:	
		State: Federal: Other: Total: % of Total Budget:	State: Federal: Other: Total: % of Total Budget:	

Below: List any programs not included above and show the remainder of expenditures by source of funds.

Remainder of Expenditures:	State: Federal: Other: Total: % of Total Budget:	State: Federal: Other: Total: % of Total Budget:
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* Key Cross-References are a link to the Category 7 - Business Results. These References provide a Chart number that is included in the 7th section of this document.