AGENCY NAME:	Office of the State Inspector General		
AGENCY CODE:	D25	SECTION:	093

Fiscal Year 2013-14 Accountability Report

SUBMISSION FORM

AGENCY 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 $24 billion 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: 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."

Please identify your agency's preferred contacts for this year's accountability report.

	Name	***Phone***	***Email***
PRIMARY CONTACT:	Patrick J. Maley	803-896-4721	patrickmaley@oig.sc.gov
SECONDARY CONTACT:	George Davis	803-896-4729	georgedavis@oig.sc.gov

I have reviewed and approved the enclosed FY 2013-14 Accountability Report, which is complete and accurate to the extent of my knowledge.

AGENCY NAME:	Office of the State Inspector General		
AGENCY CODE:	D25	SECTION:	093

AGENCY DIRECTOR *(SIGN/DATE)*:	
(TYPE/PRINT NAME):	Patrick J. Maley

BOARD/CMSN CHAIR *(SIGN/DATE)*:	Not Applicable—The State Inspector General is an independent state agency without a board or commission.
(TYPE/PRINT NAME):	

AGENCY'S DISCUSSION AND ANALYSIS

The Office of the State Inspector General (SIG) began FY 2013-2014, its second year of operations, with two investigators, an administrative assistant, and the Inspector General operating in a small space donated by LLR. One year later, the SIG has implemented the General Assembly and Governor Haley's vision for the SIG with a fully staffed office (five investigators) of highly skilled investigators and auditors (85 years of FBI Agent experience; 75 years of auditing experience; and 20 years of private sector business experience) in a fully operational office, to include a statewide "hotline" for fraud, waste, and abuse tips.

The SIG believes the results from its second year of operations, with all its challenges of establishing a physical office and recruiting a new staff, have exceeded its inaugural FY 2012-2013 results. During its first year with limited staff, four of the SIG's investigations had significant and statewide impact, which included:

- The INFOSEC report established the cornerstone plan followed by the Budget and Control Board to address systemic statewide INFOSEC weaknesses exposed during the aftermath of the Department of Revenue Breach;
- The Prescription Drug Abuse report resulted in a Governor's task force to develop a statewide strategy to address the state's number one public health issue previously unaddressed, which will save numerous lives and tens of millions a year in Medicaid expenditures;
- The SC Investment Commission report resolved serious fraud allegations, as well as identified opportunities to improve the agency's operational efficiency and effectiveness; and
- Started engaging in the inefficiencies in how the State executes is mission through contracts and grants through an investigation and identification of a statewide weakness in contract/grant monitoring.

During FY 2013-2014, the SIG initiated long overdue statewide change in two critical areas, which have the opportunity to change the statewide landscape in integrity and government waste. It is clear to the SIG, all levels of government, to include State government, have eroding trust and confidence levels with the public it serves. Yet, the State's current statutory "rules of conduct" standards for state employees' behavior generally pertains to elected officials and not the vast majority of state employees, such as the 58,000 in the Executive Branch. The statute is insufficient to meet the needs of a state agencies "code of conduct" to provide employees guidance in critical areas to foster a high integrity work environment. To close the public's "trust gap," three weaknesses in the current statute require attention: a very low gift standard for employees filing annual disclosure form and no gift standard for all other state employees; no standard addressing "appearances of conflict of interest;" and no requirement for employees to have an affirmative duty to report misconduct. The SIG provided written information and testified before a legislative ethics committee on this issue, but suggested modifications to the code of conduct were not incorporated into any proposed legislation.

During FY 2013-2014, the SIG conducted five misconduct investigations in five different agencies. These reviews revealed wide variability in the content of codes of conduct, as well as how agencies implemented their respective codes of conduct. This analysis led to Governor Haley issuing, on April 9, 2014, Executive Order No. 2014-23 establishing a State Employee Code of Conduct Task Force to develop written recommendations for a Code of Conduct for state employees. The thrust of this effort is to establish a standardized code of conduct relevant to Executive Branch employees, with the flexibility for agencies to modify to meet their unique mission requirements. The Governor expects to implement the results within her cabinet agencies, and the standardized template be available to all other Executive Branch agencies as a model to consider when updating their respective codes of conduct. The current draft includes polices for no gifts, avoid the appearance of

conflicts of interest, and a duty to report misconduct. If fully implemented, this will establish a broad baseline of high standards in Executive Branch agencies, which then hopefully will stimulate the legislature to consider adopting this baseline into state law.

The SIG's efforts to promote efficient and effective state operations and prevent waste emphasized improving the state's Annual Accountability Report (AAR), which culminated in a letter to Budget and Control Board members recommending substantial change in the AAR. This recommendation was based on the fact that waste does not come in neat discreet packages where investigation can cut waste from state government with a scalpel. Waste is like fat marbled throughout a stake, requiring a systems change throughout state government to address. The AAR is the state's framework for a performance management system to feed into the Governor's Budget and legislative oversight. The SIG's inquiry with legislative and executive branch leaders and front line budget analysts paints a picture the AAR has low utility. It is likely considered more a perfunctory exercise or marketing tool than a valuable organizational performance tool providing rigorous data to be useful in the budget process to discern performance and resource allocations. The SIG conducted reviews into two agencies' AARs, and both did not reflect reality in providing balanced, accurate data demonstrating accountability for taxpayer value. The SIG's recommendations were acted upon by the new Executive Budget Office, Department of Administration, with an updated AAR focused on measurable outcomes. This does not seem like a seismic change, but stripping away the "air cover" of voluminous narrative of activity and focus on specific strategies, tactics, and measurable outcomes is the cornerstone to improve state efficiency and effectiveness. The new AAR will allow oversight and agencies to focus on expectations, measureable results, and bring enhanced accountability to the Executive Branch. Nothing improve efficiency and effectiveness, and correspondingly addresses waste, like clear measurable accountability for results.

So, following on the theme of eliminating the narrative "foof" in the AARs and providing measurable results, the below are the SIG's measurable results for FY 2013-2014:

- Report titled, "Review of South Carolina State University (SCSU) 1890 Program" pertained to identifying mismanagement of the 1890 Program where the University inappropriately diverted $6,478,866 from a program designed to help low income citizens. SCSU's diversion was needed to subsidize SCSU's cash flow and deficit problems during the past 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 has only worsened SCSU's financial situation by allowing deficits to grow while delaying action to address structural business issues causing these deficits. The SIG created the basis for the 1890 Program to recover $6,478,866, which was repaid by SCSU. (See_link: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 of SCSU 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 SIG recommended $368,000 residing in foundations be recovered and transferred back to SCSU to be used for mission related activities. (See_link: http://oig.sc.gov/Documents/Review_of_Suspicious_Indicators_at_South_Carolina_State_University_Foundations.pdf).

- 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. (See_link: http://oig.sc.gov/Documents/Review%20of%20John%20De%20La%20Howe%20Schools%20FY2012-13%20Annual%20Accountability%20Report%20to%20Assess%20Organizational%20Effectiveness.pdf

- Report titled, "Review of Federal Grants to the Piedmont Community Actions, Inc. for the Period of 2009 – 2013" pertained to a non-profit's mismanagement of two state government weatherization program contracts over a five year period. Testing yielded losses in excess of $300,000 on just a sample of weatherization projects, which if extrapolated, would be far north of several million dollars. From a state perspective, the key lesson learned is the need to focus on "on-site" sample testing of transactions from project records through the non-profits accounting system to provide assurance of both performance and fiscal accountability to support grant reimbursements. The plethora of other assurance through external audits, A-133 audits, general fiscal and activity reporting expend significant energy by both grantee and grantor, yet pale in providing assurance compare to a short on-site audit of sample testing of transactions. (See_link: http://oig.sc.gov/Pages/Reports.aspx)

- Report titled, "South Carolina State Government Waste" pertained to an overview of opportunities to reduce waste in state government. 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 most ripe 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 has responded to the SIG's suggestions and made substantial improvements in the FY 2014-2015 AAR. (See_link:http://oig.sc.gov/Documents/Addressing%20Waste%20in%20South%20Carolina%20Government.pdf)

- Based on a statutory requirement, the SIG served as the contract manager for the fiduciary audit of the Retirement System Investment Commission (RSIC). 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 RSIC. (See_link:http://oig.sc.gov/Documents/FAS%20Final%20RSIC%20Fiduciary%20Audit%20Report%20April%2018%202014.pdf).

- During the FY, the SIG conducted five misconduct investigations in five different agencies involving agency management, often executive management. These reviews revealed wide variability in the content of agencies' codes of conduct, 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, on April 9, 2014, Executive Order No. 2014-23 establishing a State Employee Code of Conduct Task Force to develop written recommendations for a Code of Conduct for state employees to be completed by July 1, 2014 (see link: http://www.governor.sc.gov/ExecutiveOffice/Documents/2014-23%20Establishing%20the%20State%20Employee%20Code%20of%20Conduct%20Task%20Force.PDF). The thrust of this effort is to establish a standardized code of conduct relevant to Executive Branch employees, with the flexibility for agencies to modify to meet their unique mission requirements. The Governor expects to implement the results within her cabinet agencies, and the standardized template be available to all other Executive Branch agencies as a model to consider when updating their respective codes of conduct. (See_two_SIG_links: 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).

- Report titled, "Financial Analysis and Investigative Support to Lander University" pertained to the SIG conducting a forensic accounting analysis of a variety of schemes conducted by a university employee. The SIG's analysis was able to verify the initial suspected $54,000 scheme, which then branched off into other schemes with a documented total loss of $414,000. Loss recovery to date is estimated at $165,000, and the subject has pleaded guilty to the entire $414,000 loss.

- The SIG produced it 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. Other than two major frauds, the residual 14 frauds reported during FY 2013-2014 were nominal in nature and indicative of Executive Branch employees operating in a high integrity environment given its $24 billion budget and 58,000 employees. However, the two major frauds should remind every Agency Head that even though the frequency of major frauds potentially damaging an agency's reputation and undermining the public's confidence are low in the Executive Branch, it happened twice during the past FY. 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. (See_link: http://oig.sc.gov/Documents/2013-2014%20Fraud%20Program%20Report-FINAL%20082914.pdf)

- During the FY, the SIG produced seven "Lessons Learned Alerts" distributed to all 106 Executive Branch Agency Heads, as well as curtesy copies to the legislature which included the topics of contract and grant monitoring; mission fragmentation over multiple agencies; benefits of policy & procedure; time & attendance; accountability reports; vendor contracts with rebates; and fraud internal controls. (See_link: http://oig.sc.gov/Pages/Alerts.aspx)

- The SIG conducted 14 other preliminary inquiries, many pertaining to alleged misconduct from state employees from the SIG's hotline, which did not result in formal reports. The vast majority of these cases resulted in allegations being unsubstantiated or nominal in nature. Still, these "boots on the ground" misconduct reviews serves a purpose of creating a deterrent impact in the Executive Branch knowing an independent agency has the capability and motivation to follow up on credible allegations.

- The SIG operates a "hotline" for the Executive Branch of state government. The SIG logged 333 complaints, which was a 62% increase from prior FY 2012-2013 (205). The FY 2013-2014 complaints pertained to the following agencies:

Agency	# complaints FY 2012-2013
Dept. of Social Services	83
Dept. of Health & Human Services	18
Dept. of Transportation	29
Dept. of Mental Health	10
DHEC	6
PEBA	5
Dept. of Corrections	27
Dept. of Revenue	10
Budget Control Board	10
SC State University	5
DMV	7
University of South Carolina	7
Adjutant General	7
Private Company-nexus to state govt.	25
Federal Government	23
Local Government	5
29 Agencies with 4 or less complaints	56
Total	**333**

These complaints resulted in 20 new investigations during FY 2013-2014, which is an increase of 33% from prior FY. 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 complaints pertain to personnel issues or lower level leadership complaints in state agencies, which is referred to appropriate agency for management follow-up. 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.

- Pending SIG reviews include review of statewide accounts receivables, which had a 2013 calendar year ending balance of a billion dollars; allegation of misconduct (conflict of interest) by a board member on a major contract; diversion of a disability program benefits within non-profits; allegation of misconduct in grants; and a review of the statewide procurement system for the risk of fraud, waste, and abuse.

- **Update** regarding the May 2013 report titled, "SC Lacks a Statewide Drug Abuse Strategy," pertains to Governor Haley creating an Executive Order (2014-22) in March 2014 establishing a Governor's Prescription Drug Abuse Council to establish a comprehensive statewide strategy to combat prescription drug abuse in South Carolina with the report due in October 2014. (See_link: http://www.governor.sc.gov/ExecutiveOffice/Documents/2014-22%20Establishing%20the%20Prescription%20Drug%20Abuse%20Prevention%20Council.pdf).

Agency Name:	State Inspector General		
Agency Code:	D25	Section:	093

Fiscal Year 2013-14
Accountability Report

Strategic Planning Template

Type	Item # Goal	Strat	Object	Description
G	1			**Reduce incidents of fraud conducted by Executive Branch (EB) employees**
S		1.1		**Investigate incidents of fraud conducted by EB employees**
O			*1.1.1*	*Identify all incidents of fraud conducted by EB employees through mulitple mechanisms*
O			*1.1.2*	*Initiate investigations with emphasis on forensic accounting services*
S		1.2		**Deter incidents of fraud conducted by EB employees**
O			*1.2.1*	*Prepare annual report on fraud incidents conducted by EB employees*
O			*1.2.2*	*Provide "lessons learned" from annual frauds to agencies, primarily related to improving internal controls*
O			*1.2.3*	*Conduct fraud risk assessment of statewide procurement processes and mitigate identified risks*
G	2			**Enhance integrity in the EB**
S		2.1		**Investigate incidents of misconduct in EB with emphasis on executive managers**
O			*2.1.1*	*Identify significant incidents of misconduct through the SIG hotline and open source reporting*
O			*2.1.2*	*Initiate investigations on significant incidents of misconduct*
O			*2.1.3*	*Emphasize case initiations involving allegations of corrupt influence*
S		2.2		**Provide input/feedback to improve integrity within the EB**
O			*2.2.1*	*Provide input into improving the code of conduct in the EB through the Governor's Task Force*
O			*2.2.2*	*Provide input into legislative initiatives pertaining to improving ethics laws*
O			*2.2.3*	*Provide "lessons learned" to agency heads from misconduct reports*
G	3			**Reduce waste in the EB operations**
S		3.1		**Investigate significant incidents of EB waste with emphasis on having direct or indirect statewide impact**
O			*3.1.1*	*Identify potential cases through increasing outreach to stimulate awareness, relationships, and ultimately quality cases*
O			*3.1.2*	*Initiate investigations on significant incidents of EB waste with emphasis on having direct or indirect statewide impact*
S		3.2		**Provide "lessons learned" to agencies to improve EB operations**
O			*3.2.1*	*Provide SIG Alerts as the mechanism to disseminate lessons learned*
O			*3.2.2*	*Present plan to legislative oversight for audit of Annual Accountibility Reports*
G	4			**Involve EB employees to identify significant waste in EB operations**
S		4.1		**Operate a tip "hotline"**
O			*4.1.1*	*Increase outreach to EB through five different mechanisms*
O			*4.2.1*	*Increase complaint volume by 5%*

Agency Name:	Office of State Inspector General		
Agency Code:	D25	Section:	093

Fiscal Year 2013-14
Accountability Report

Performance Measurement Template

Item	Performance Measure	Last Value	Current Value	Target Value	Time Applicable	Data Source and Availability	Reporting Freq.	Calculation Method	Associated Objective(s)
1	forensic accounting investigations	1	2	3	July 1 - June 30	SIG manual count	Annual	frequency	1.1.1
2	misconduct investigations	0	5	5	July 1 - June 30	SIG manual count	Annual	frequency	2.1.2
3	corrupt influence investigations	0	0	2	July 1 - June 30	SIG manual count	Annual	frequency	2.1.3
4	publish SIG Alerts to Agency Heads	2	5	7	July 1 - June 30	SIG manual count	Annual	frequency	1.2.2 ;2.2.3; 3.2.1
5	complaint frequncy	205	330	350	July 1 - June 30	SIG Case Record System	Annual	frequency	4.2.1
6	econ recoveries & waste prevention	$462,000	$7,311,866	$618,000	July 1 - June 30	SIG manual count	Annual	actual recoveries & estimations	3.1.2
7	statewide recommedations	18	10	15	July 1 - June 30	SIG manual count	Annual	frequency	3.1.2

Agency Name:	Office of the Inspector General		
Agency Code:	D25	Section:	093

Fiscal Year 2013-14
Accountability Report

Program Template

Program/Title	Purpose	FY 2012-13 Expenditures				FY 2013-14 Expenditures				Associated Objective(s)
		General	Other	Federal	TOTAL	General	Other	Federal	TOTAL	
I. Office of the Inspector General		$ 233,518	$ -	$ -	**$ 233,518**	$ 472,675	$ 729,200	$ -	**$ 1,201,875**	
II.C. State Employer Contributions		$ 50,919			**$ 50,919**	$ 107,774			**$ 107,774**	