

**The State Inspector General’s Annual Report of Fraud**  
**Conducted by Executive Branch State Employees**  
**Fiscal Year (FY) 2020-21**

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 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 2020-21, the SIG received five notifications of potential fraud involving eight Executive Branch employees at four state agencies, which resulted in estimated losses of \$110,300 in the below categories:

<b>Fraud Scheme Category</b>	<b>Reported Incidents</b>	<b>Employees Involved</b>	<b>Fraud Losses by Scheme</b>
Conflict of Interest /Business Relationship	3	3	\$16,000
Theft of Funds	1	1	\$77,000
Embezzlement	1	4	\$17,300
<b>TOTALS</b>	<b>5</b>	<b>8</b>	<b>\$110,300</b>

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

<b>Fraud Scheme Category</b>	<b>Reported Incidents</b>				<b>Total Reported Losses</b>			
	<b>FY 2020-21</b>	<b>FY 2019-20</b>	<b>FY 2018-19</b>	<b>FY 2017-18</b>	<b>FY 2020-21</b>	<b>FY 2019-20</b>	<b>FY 2018-19</b>	<b>FY 2017-18</b>
Procurement Fraud	0	0	2	1	\$0	\$0	\$0	\$0
Contract/Grant Fraud	0	0	1	0	\$0	\$0	\$0	\$0
Embezzlement	1	0	0	2	\$17,300	\$0	\$0	\$2,252
Theft of Funds	1	0	1	1	\$77,000	\$0	\$1,400	\$29
Conflict of Interest/ Business Relationship	3	1	0	1	\$16,000	\$0	\$0	\$0
Fleet Card Fraud	0	0	3	0	\$0	\$0	\$1,506	\$0
<b>Totals</b>	<b>5</b>	<b>1</b>	<b>7</b>	<b>5</b>	<b>\$110,300</b>	<b>\$0</b>	<b>\$2,906</b>	<b>\$2,281</b>

Analysis of FY 2020-21 results developed the following observations:

- FY 2020-21 reported losses of \$110,300 was the highest of the past four FYs and exceeded the average of the three previous FYs (\$1,729) by \$108,571. The FY 2020-21 incidents (5) equaled the second highest number of agency reported frauds of the prior four FYs.

- For FY 2020-21, the job levels for the eight executive branch employees reported for fraud was one at the executive (agency head) level, one at the supervisory level and six front-line workers.
- The five fraud schemes reported were identified through internal (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.

These five reported frauds reinforce the fundamental principles of fraud prevention: 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 a state agency without further consequence. This is a common claim made by some statewide internal auditors.

In summary, the five reported fraud incidents totaling \$110,300 indicates a low risk of employee fraud in the Executive Branch. Although no major fraud loss in the six-figure 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 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 five reported fraud matters, as well as a recap of lessons learned from other SIG investigations and reviews during FY 2020-21.

### **VIGNETTE – Fraud Conducted by Executive Branch State Employees in FY 2020-21**

1. One employee of a state agency filed false documentation using the names of family and friends to fraudulently obtain state funds for personal gain. This matter was referred to the SC Attorney General's Office for possible prosecution. The employee was terminated from state employment. Total fraud loss reported: \$77,000.
2. A supervisory employee of a state agency was working a second job without authorization. The state agency conducted an internal investigation, which revealed the employee was in violation of five agency policies and procedures. The employee resigned in lieu of termination. Total fraud loss reported: \$0.00.
3. Four employees of a state agency entered false information into official agency records to take or entirely waive required service fees. The employees also fraudulently issued documents to persons not certified to receive official credentials. This matter is currently being investigated by law

enforcement. All four employees were terminated from state employment. Total fraud loss reported: \$17,300.00.

4. An employee of a state agency provided hundreds of official documents to a person whom the employee incorrectly believed worked for another government agency and was authorized to receive the records. Prosecution was declined in this matter. The employee was terminated from state employment. Total fraud loss reported: \$0.00.
5. A senior executive for a state agency had a conflict of interest in a contract procurement matter and failed to recuse him/herself from the awarding of the contract. The senior executive was terminated from state employment and the contract was terminated by the agency. Total fraud loss reported: \$16,000.00.

## **Recap of Lessons Learned for Fiscal Year 2020-21**

**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 procurements. Agencies should also conduct a review of the agency’s code of conduct with staff and ensure all staff affirm they have read and understand the agency’s code of conduct

**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, as well as supervisory oversight of employees.

Listed below are two reports issued by the Association of Certified Fraud Examiners and a quick reference guide for use by agency heads in bringing fraud awareness to state employees.<sup>1</sup>

[ACFE Fraud Awareness Training Benchmarking Report](#)

[ACFE Prevent Fraud Before it Happens - How to Train Employees to be Fraud Detectors](#)

[Fraud Scheme Detection and Prevention Measures in Governmental Organizations – Quick Reference Guide](#)

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<sup>1</sup> By permission from the Association of Certified Fraud Examiners