

The State Inspector General’s Annual Report of Fraud
Conducted by Executive Branch State Employees
Fiscal Year (FY) 2021-22

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 2021-22, the SIG received four notifications of potential fraud involving five Executive Branch employees at three state agencies, which resulted in estimated losses of \$31,860 in the below categories:

Fraud Scheme Category	Reported Incidents	Employees Involved	Fraud Losses by Scheme
Bribery/Kickbacks	2	2	\$760
Misuse of State Funds	2	2	\$31,100
Contract/Grant Fraud	1	1	\$0
TOTALS	5	5	\$31,860

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			
	FY2021-22	FY 2020-21	FY 2019-20	FY 2018-19	FY2021-22	FY 2020-21	FY 2019-20	FY 2018-19
Bribery/ Kickbacks	2	0	0	0	\$760	\$0	\$0	\$0
Misuse of State Funds	2*	0	0	0	\$31,100	\$0	\$0	\$0
Contract/Grant Fraud	1	0	0	1	\$0	\$0	\$0	\$0
Procurement Fraud	0	0	0	2	\$0	\$0	\$0	\$0
Embezzlement	0	1	0	0	\$0	\$17,300	\$0	\$0
Theft of Funds	0	1	0	1	\$0	\$77,000	\$0	\$1,400
Conflict of Interest/ Business Relationship	0	3	1	0	\$0	\$16,000	\$0	\$0
Fleet Card Fraud	0	0	0	3	\$0	\$0	\$0	\$1,506
Totals	5	5	1	7	\$31,860	\$110,300	\$0	\$2,906

*One incident contained two subjects.

Analysis of FY 2021-22 results developed the following observations:

- FY 2021-22 reported losses of \$31,860 was the second highest of the past four FYs and was less than the average of the three previous FYs (\$37,735) by \$5,875. The FY 2021-22 incidents (5) equaled the second highest number of agency reported frauds of the prior three FYs.

- For FY 2021-22, the job levels for the five executive branch employees reported for fraud was two at the executive/upper management level, one at the supervisory level and two 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 \$31,860 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 reported fraud matters, as well as a recap of lessons learned from other SIG investigations and reviews during FY 2021-22.

VIGNETTE – Fraud Conducted by Executive Branch State Employees in FY 2021-22

1. One employee of a state agency accepted money to enter false information into official agency records and waive required service fees. The employee also fraudulently issued documents to persons not certified to receive official credentials. This matter is currently being investigated by State Law Enforcement Division (SLED). The employee was terminated from state employment. Total fraud loss reported: \$460.
2. Two employees associated with a state agency were deficient in their oversight of state funds that resulted in the wasteful and inappropriate use of state funds. One of the employees also did not follow state procurement guidelines and competitive bidding regarding a contract for an outside vendor. The contract was terminated. Both employees resigned from their positions. This matter was referred to SLED for investigation. Total fraud loss reported: \$31,100.

3. One employee of a state agency accepted money to enter false information into official agency records and waive required service fees. The employee also fraudulently issued documents to persons not certified to receive official credentials. This matter is currently being investigated by SLED. The employee was terminated from state employment. Total fraud loss reported: \$300.
4. One employee of a state agency allegedly promised outside vendors work regarding a fixed price solicitation prior to the awarding of the contract. The SIG determined no fraud occurred but this matter involved mismanagement. The employee retired from state employment. Total fraud loss reported: \$0.

Recap of Lessons Learned for Fiscal Year 2021-22

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 is an annual report issued by the Association of Certified Fraud Examiners (ACFE) that the SIG provides to agency heads for use in bringing fraud awareness to state employees.

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