



**Presented by the SC Office of the Inspector General**

# **South Carolina Association of School Business Officers**

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**Brian D. Lamkin, CFE, CIG**  
**State Inspector General**

*“There’s never a right way to do  
the wrong thing”*

Seneca the Younger, Roman statesman

*“Ain’t no right way,  
To do the wrong thing”*

Toby Keith, 2006 album  
*“White Trash with Money”*

# What to Expect in an IG Investigation

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## THREE BENCHMARKS

\*Is there a law?

- (SC Code of Laws, e.g., Consolidated Procurement Code)

\*Is there a regulation?

- (SC Code of Regulations)

\*Is there a policy?

- (District or internal )

## CORRESPONDING PROCESSES

Financial Operations Manual

Procurement Policy

P-Card Policy

Regular audits

Be able to demonstrate internal controls

Operating agreements with all external groups, foundations, etc., on the use of District personnel and resources

# What to Expect in an IG Investigation

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## OTHER BENCHMARKS?

\* *“That’s the way we’ve always done it”*

## CORRESPONDING PROCESSES?

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# Separation of Duties and Authorities

## “Trust, but Verify”

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- Check signing (authorized personnel) – no delegated signatures
- Procurement Requests – no post approval requests for reimbursements
- Database access levels and authorities (query / modify capability)
- Monthly reconciliation of bank statements with independent supervisory oversight
- Avoid the temptation of the "trusted employee syndrome"

# External Contracting “Arms Length”

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- Ensure deliverables are received and documented before payment
- Ongoing assessment of need for external contracting versus in-house capability
- No open-ended invoices – detail specifics needed
- Monitor contract compliance routinely [SIG emphasis]





# Related Party Transactions

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*“ A business arrangement between companies with close associations”*

Why is this important?

Can create conflicts of interest

Examples ??????????????????

# Conflicts of Interest

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- SC Code of Laws for State Employee Code of Conduct  
(§§ 8-13-700 to 795)
- SC State Ethics Commission Rules of Conduct
- Outside secondary employment policy and approvals
- Nepotism

THERE IS  
NO RIGHT WAY  
TO DO  
A WRONG THING.



# PROCUREMENT

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# Procurement Methods and Risk

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- **Procurement Cards** – only used for purchases below \$2500 but have high risk
- **Shopping Carts/Purchase Orders** – when used for items on state contract low risk if proper business purpose and approval are documented, and costing are done with proper segregation of duties (but do you really have all that); and what about the stuff not needing an RFP or gotten through Sole Source.
- **RFP** – did you properly write up the scope of work, were all vendors given equal consideration, etc.
- **RFGA (Request for Grant Application)** – did you identify the key areas in the grant agreement that you want to have the grantee to adhere to, i.e., accounting of grant expenditures, identifying sub-grantees, conflict of interest/ethics restrictions, etc.

# Rules of Procurement

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If you are under multiple sets of guidelines such as federal and state guidelines, you must use the most restrictive for that situation.

If you expend Federal dollars, you must treat federal and non-federal dollars the same.

Federal rules: 2 CFR 200 Uniform Guidance <https://www.ecfr.gov>

State rules: <https://www.scstatehouse.gov/code/t11c035.php>

# Things to test - RFP

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- Did the correct personnel weigh in on the needs assessment/requirements/scope of work section?
- Were all appropriate procedures followed in getting the solicitation approved internally?
- Did interested parties have an contact with vendors outside the RFP process?
- Were the appropriate personnel on the evaluation team?
- Did the agency get the best value through the purchase process?
- What could the agency do better in future RFPs?

# Potential Objectives – Procurement Audit

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- To determine whether management practices, systems and controls result in goods and services being acquired in accordance with stated requirements;
- To verify appropriate delegated financial signing authorities were applied;
- To validate adherence to policies and guidelines; and
- To confirm that goods and services were properly acquired and received by the agency.

# Prioritizing the Audit

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- Look for your three-way matching – purchase order/approval/authorization; invoice; goods receipt. Look at the scenarios where this happens and where it does not
- Look at Segregation of Duties – if one person has the ability to do all the things above; you could have a problem.
- Who controls vendor setup and the delivery location – this is how you can end up with ghost vendors and goods getting paid for by your agency and delivered to an employee's home.



# Prioritizing the audit

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- **How are purchases approved? Do the people who are responsible for the budget it gets charged to approving the purchase?**
- **How are you documenting the who, what, where, and why of the purchase?**
- **How are you selecting and approving vendors?**
- **Are purchases reviewed by managers monthly? Quarterly? Ever?**
- **Are you including Accounts Payable in your audit?**
- **Are you including compliance with federal cost principles in your audit?**

# Using an Internal Controls Questionnaire

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Use open-ended questions to determine what processes and controls are in place and then cater testing to it. Below is the first 10 of a 33-question questionnaire used.

- Are purchase orders (shopping carts) based on authorized requisitions?
- Are purchase orders (shopping carts) properly coded to identify the cost objective (direct or indirect?)
- Are approval levels defined for purchase orders (shopping carts)?
- Are effective status reports maintained to record the receipt of purchase requisitions?
- Does procurement maintain specifications for all materials and services used?
- Are requirements combined where appropriate?
- Are buying decisions appropriately documented?
- Does procurement have adequate controls to prevent the unauthorized use of cancelled or voiced purchases/purchase requisitions?
- Is the purchasing department independent of other departments and responsible for procuring all materials and equipment?
- Is the receiving function separate from the purchasing function?

# Accounts Payable Fraud

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- Fraudulent vendor payments
- Approved vendor list (recommended)
- Bank Card / Procurement Card fraud
- Travel Expense Reimbursements

## Helpful Tips

- ▶ Tracking of purchases by vendor
- ▶ Complete audit trail
- ▶ Accounts Payable Aging Report
- ▶ Cash flow analysis
- ▶ Check register
- ▶ 1099 Forms

*2018 Global Study on Occupational Fraud and Abuse by the Association of Certified Fraud Examiners, Inc. (ACFE) [2018 ACFE Report to the Nations](#)*

# Things to test – Grant Agreement

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- Did grant recipient have/utilize outside vendors provide delivery of services?
- What is the relationship of outside vendors to the grant recipient?
- Were the appropriate personnel on the evaluation team?
- Did the entity receive the best value through the grant process in providing the grant to the recipient?
- What could the entity do better in future RFGAs?

## CONTROL POINTS IN THE EXPENDITURE CYCLE

Control Activity	Purchasing Processing System	Cash Disbursements System
Transactions authorization	Inventory control	Accounts payable authorizes payment.
Segregation of duties	Inventory control separate from purchasing and inventory custody. AP subsidiary ledger separate from the general ledger.	Separate AP subsidiary ledger, cash disbursements, and general ledger functions.
Supervision	Receiving department	
Accounting records	AP subsidiary ledger, general ledger, purchases requisition file, purchase order file, receiving report file.	Voucher payable file, AP subsidiary ledger, cash disbursements journal, general ledger cash accounts.
Access	Security of physical assets. Limit access to the accounting records above.	Proper security over cash. Limit access to the accounting records above.
Independent verification	Accounts payable reconciles source documents before liability is recorded. General ledger reconciles overall accuracy of process.	Final review by cash disbursements. Overall reconciliation by general ledger. Periodic bank reconciliation by controller.

*Source: Accounting Information Systems, 6th edition James A. Hall - COPYRIGHT © 2009 South-Western, a division of Cengage Learning.*

# *“Process Protects”*

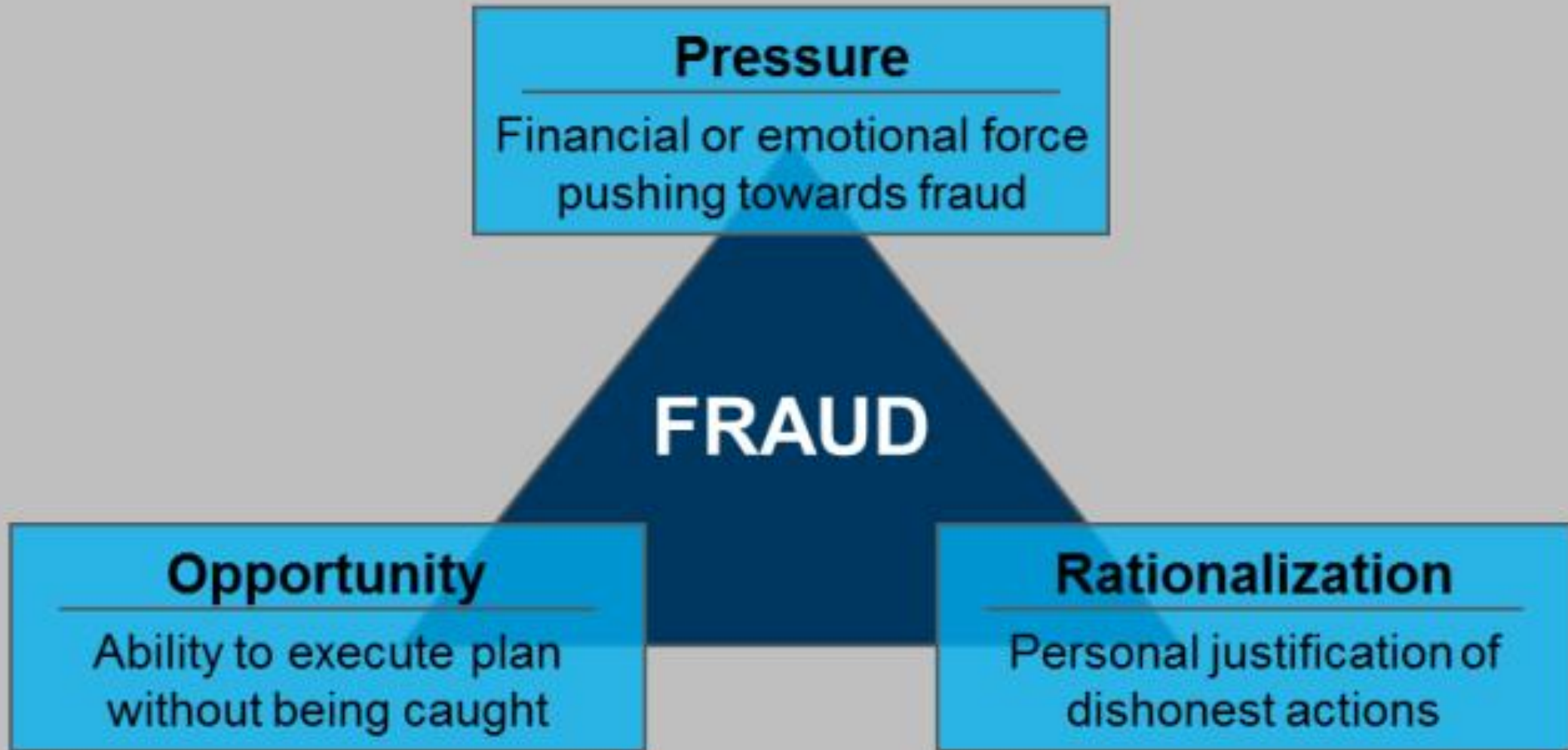
Rick Funston – Funston & Associates

# FRAUD RISK MANAGEMENT

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# The Fraud Triangle:

A framework for spotting high-risk fraud situations





# Comprehensive Fraud Risk Management Process



**“Large frauds have led to the downfall of entire organizations, massive asset and investment losses, significant legal costs, incarceration of key individuals, and erosion of confidence in capital markets, government, and not-for-profit entities.”<sup>1</sup>**

Without an effective fraud management strategy, a company is exposed to fraud for which the Board and management may be legally and financially liable for failure to establish a pro-active fraud risk framework.

**[www.oig.sc.gov/reports](http://www.oig.sc.gov/reports)**

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**2021 - Review of the Greenwood County and Abbeville County First Steps Partnerships**

**2020 - Review of Transparency and Accountability in Earmark Funding and the Impact on the Executive Branch - FYs 2019 & 2020**

**2018 - Review of the South Carolina Conservation Bank's Accounting Practices and Grant Funding Procedures Operations**

# How to Report Fraud or Misconduct?

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- Web complaint form: [www.oig.sc.gov](http://www.oig.sc.gov)
- Toll-free Hotline: 855-SC-FRAUD  
or (855) 723-7283
- Mail: SC Office of the Inspector General  
111 Executive Center Drive, Suite 204  
Columbia, SC 29210
- Email: [oig@oig.sc.gov](mailto:oig@oig.sc.gov)

