



SUMMARY
A REVIEW OF THE OFFICE OF ECONOMIC ENGAGEMENT OF THE UNIVERSITY OF SOUTH CAROLINA AND ITS AFFILIATION WITH THE USC/COLUMBIA TECHNOLOGY INCUBATOR AND THE SOUTH CAROLINA RESEARCH FOUNDATION



DECEMBER 2024

GRANT MANAGEMENT PRACTICES

Members of the S.C. General Assembly requested that we conduct an audit of the economic and business development activity of the University of South Carolina's (USC's) Office of Economic Engagement (OEE), the USC/Columbia Technology Incubator, and the South Carolina Research Foundation (SCRF).

OBJECTIVES

- Determine if OEE's administrative and project management practices comply with USC's policies, state and federal laws and regulations, and conform with best practices.
- Determine how OEE's approach to collaborating with external partners affects economic growth, student learning, and student employment opportunities and conforms with best practices.
- Determine whether controls exercised by USC in its relationships with SCRF and the Incubator are effective in minimizing the risk of waste, fraud, and abuse and conform with best practices.

FOR MORE INFORMATION

Our full report, including comments from relevant agencies, is published on our website. Copies can also be obtained by contacting our office.

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SOUTH CAROLINA GENERAL ASSEMBLY
Legislative Audit Council
 Independence, Reliability, Integrity

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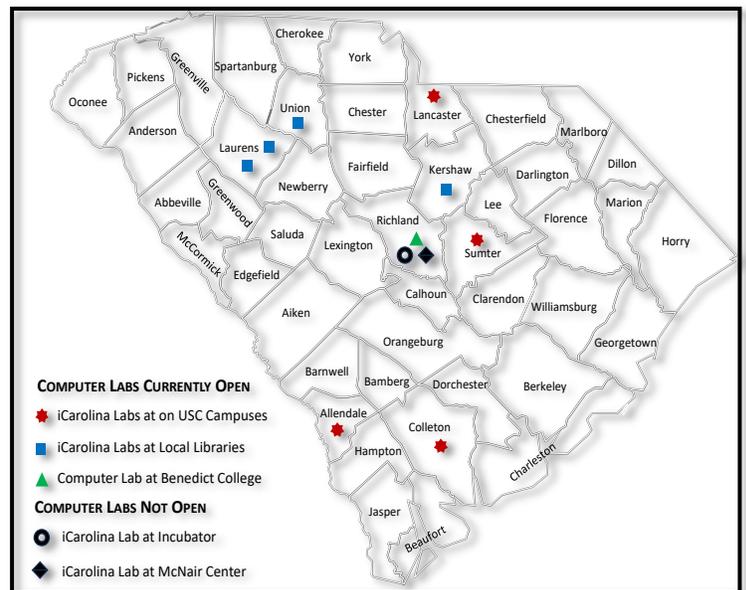
Although the University of South Carolina's (USC) Office of Economic Engagement (OEE) was awarded more than \$10.6 million for 23 grants from 2018 through 2023, it had no grant administrator of its own during this period and relied on grant management assistance from USC's College of Engineering and Computing (CEC). Although federal sources provided most of OEE's grants, two-thirds of its grant revenue came from state government sources. From May 2019 through November 2023, USC wrote off \$73,224 in grant expenses from five grants, South Carolina Department of Commerce (DOC) terminated a \$47,000 grant with OEE in October 2023 because OEE failed to start work on the related project, and OEE appointed the same employee as sole principal investigator on 91% of its grant proposals submitted from 2018 through 2023.

GOVERNOR'S EMERGENCY EDUCATION RELIEF (GEER) GRANT

The U.S. Department of Education awarded South Carolina \$48,467,924 in GEER funds to provide emergency educational assistance in response to the COVID-19 pandemic. In March 2021, the Governor's Office awarded USC \$6 million in GEER funds to establish Apple® computer labs statewide. OEE senior management served as the principal investigator (PI), and the S.C. Department of Administration was responsible for monitoring grant expenditures. We found \$1.7 million in questionable financial transactions, failure to comply with federal grant regulations, failure to consider counties with less reliable broadband, and posting of inaccurate information about the computer labs on OEE's website. Of the \$1.7 million in GEER funds spent on questionable transactions, we found the following amounts were spent:

- ❖ \$635,600 on contracts for two computer labs which are not opened.
- ❖ \$400,000 for marketing the computer labs, partly spent, in 2023, to market OEE.
- ❖ \$286,553 for salaries and fringe benefits for eight OEE employees who said they never worked on the grant.
- ❖ \$237,500 for a quantum computing systems membership to benefit USC's CEC and USC's Department of Information Technology—not the computer labs.
- ❖ \$149,835 on a research database and expert portal to which, as of June 2024, full access was unavailable.

- ❖ \$4,589 for Apple Watches® for 11 staff members of USC's Palmetto College.



TWO LEASES AND SERVICES AGREEMENT ON COMPUTER LABS NOT OPENED

USC spent \$190,200 in GEER funds to lease space in the USC/Columbia Technology Incubator (Incubator) building and \$409,400 in GEER funds on a services agreement with the Incubator. Incubator staff was charged with hiring personnel, marketing the lab, and outfitting the rented space and common areas. The lab never opened. The City of Columbia has since terminated the lease on the building. USC signed a three-year lease for \$36,000 with the South Carolina Research Authority for a room to establish an Apple computer lab in the Ronald E. McNair Center for Aerospace Innovation and Research, but that lab has been unused since USC ceased offering online classes in that room.

MARKETING FOR COMPUTER LABS CONVERTED TO MARKET OEE

In 2023, OEE recommended that USC sign a \$400,000 computer lab marketing contract with a local public relations firm whose chairman and former CEO was a friend of OEE management. We requested all work products and received ten; three were duplicates, two focused solely on the computer labs, two briefly mentioned computer labs, and three addressed unrelated topics. One product was a booklet focused on OEE accomplishments.

GEER GRANT USED TO PAY SALARIES FOR OEE EMPLOYEES WHO DID NOT WORK ON THE GRANT

Eight OEE employees were paid with grant funds for a project on which they informed us they had done no work, despite seven of them having previously signed time and effort reports agreeing that they had worked on this project. These reports were signed and certified by the PI on the GEER grant, a person who was an OEE senior manager.

DOC GRANTS AWARDED TO OEE, INCUBATOR, AND SOUTH CAROLINA RESEARCH FOUNDATION (SCRF)

Having awarded nine grants, including two renewals to OEE, the Incubator, and the SCRF from 2018 through 2022, DOC conducted insufficient monitoring to ensure grantees submitted progress reports, did not conduct post-award audits of grant-funded projects to ensure compliance with grant requirements, and did not have a provision in its grant agreements requiring grantees to inform the agency if the grantee receives third-party funding for similar work performed during the grant period. For example, OEE received funding from the U.S. Small Business Administration for a project with deliverables similar to those of the 3Phase grant that DOC had awarded to OEE.

INCUBATOR AND SCRF PRACTICES

LEASE AGREEMENT BETWEEN CITY OF COLUMBIA AND SCRF

The Incubator has operated in a building leased to SCRF by the City of Columbia. The lease, executed in 2004, was extended until 2013 and has continued informally on a month-to-month basis since then. The lease agreement failed to clarify the relationship between SCRF and the Incubator. In 2024, the City of Columbia cancelled the lease.

INCUBATOR BOARD

The Incubator board failed to adequately oversee operations of the Incubator. This has contributed to an environment in which tenant member companies' progress is not evaluated, potential tenant member companies are not assessed for viability, and occupants stay well beyond allowable time frames. The board failed to assess both Incubator effectiveness and the performance of the executive director. Despite a requirement that board members regularly attend meetings, one member never attended a meeting from 2018 through 2022.

INCUBATOR FINANCIAL MANAGEMENT

Since 2015, USC and the Incubator have shared ideas, resources, and personnel time and collaborated on grant and other funding opportunities under a number of memoranda of understanding (MOUs). The MOUs do not define resources. The financial boundaries between the two entities are vague, a condition that has allowed the parties to transfer money to one other without sufficient oversight, such as when OEE used a USC purchasing card (P-card) to make two purchases for the benefit of the Incubator. The Incubator does not prepare an annual budget. While the Incubator served as a "fiscal agent" for multiple grants, one of which benefited an Incubator insider, we were unable to confirm how tenant member companies may have benefited from the grants. The Incubator's procedures for expenditures are incomplete, and its failure to comply with nonprofit best practices and IRS guidelines for meal purchases has resulted in potential misuse of nonprofit resources and inaccurate state meal reimbursement. The Incubator's IRS Form 990 filings, which have consistently been filed late, have missing information and discrepancies. The Incubator has not complied with specific nonprofit best practices, such as having a voting member of the board oversee organization's finances.

INCUBATOR STAFFING

In 2013 and during subsequent years, two different OEE employees served as executive director of the Incubator. The Incubator executive director was responsible for managing Incubator staff. The second OEE employee who served as the Incubator's executive director contributed 10-15% of his time (3.75-5.625 hours per week) to the Incubator. The time is so miniscule that it does not instill confidence in the adequate oversight of Incubator programs and administration, both of which are requirements of the Incubator's bylaws. The nature of these hybrid public-private positions made it difficult to ensure both employees were accountable for all tasks they were assigned by both OEE and the Incubator. There have also been vague boundaries between the Incubator and OEE regarding employment and compensation of student interns. Two OEE interns, whose status as students would soon expire, had their employment extended through funds provided by the Incubator.

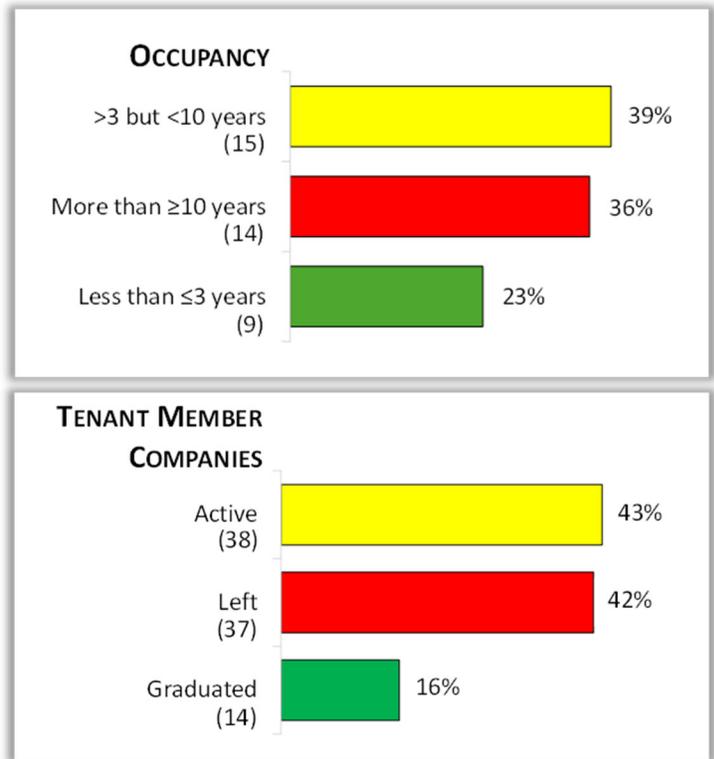
INCUBATOR TENANTS AND PROGRAMS/SERVICES

The Incubator has had a poor graduation rate among tenant member companies. A company graduates when it raises capital, establishes a board of directors, creates a steady flow of revenue, and leaves the building. From July 2017 through June 2022, the Incubator had 89 tenant member companies, of which 14 (16%) had graduated, 37 (42%) simply left, and 38 (43%) were still active. Incubator bylaws and articles of incorporation include a provision limiting occupancy by tenant member companies to 36 months, with limited opportunities for an additional 12-month extension. Twenty-nine of thirty-eight (76%) tenants stayed beyond the allowable term, with 14 (37%) having stayed beyond 10 years.

SCRF

SCRF failed to reimburse USC from 2012 through 2023 for time provided by an OEE employee in violation of a services agreement between the two entities; allowed SCRF documents to be signed by an unauthorized person, an OEE employee, in violation of SCRF bylaws; failed to hold an annual meeting; and failed to perform other administrative practices in violation of the Foundation's bylaws, the South Carolina Nonprofit Corporation Act, and best practices for nonprofits.

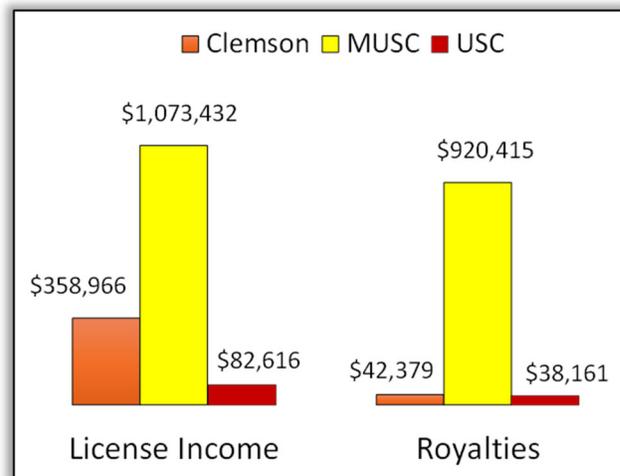
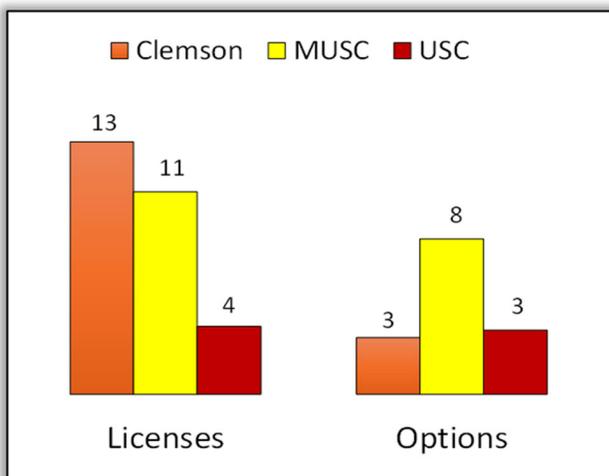
Note: Percentages have been rounded to eliminate decimals.



TECHNOLOGY COMMERCIALIZATION AND PARTNERSHIPS

TECHNOLOGY COMMERCIALIZATION

USC earned a yearly average of \$82,616 in licensing revenue—just slightly more than 1% of its peer research institutions' yearly average of \$6,036,604. Statewide, USC averaged more patents issued per year than Clemson University (Clemson) and the Medical University of South Carolina (MUSC) (32 at USC versus 15 at Clemson and 18 at MUSC), but its commercialization numbers were lower. OEE is responsible for patenting and commercializing inventions discovered via University research for all USC campuses, including the USC School of Medicine. In our analysis of technology commercialization data from AUTM (formerly known as the Association of University Technology Managers) for FY 17-18 through FY 21-22, we found that USC was awarded approximately 10 more patents a year than its peer institutions (32 versus 22) but secured less than one-fourth of the number of licenses per year (4 versus 15).



PARTNERSHIPS

OEE could not provide an accurate and complete roster of its business/industry partners, does not proactively recruit partners but waits for companies to initiate contact, and has no customer relationship management tracking system for current or prospective partners.

OEE BUDGET

From FY 17-18 through FY 22-23, OEE’s expenses exceeded its funding allocation in five of those six years. OEE had deficits at the end of FY 21-22 and FY 22-23 of **-\$846,647** and **-\$251,382**, respectively. Its FY 22-23 deficit would have been higher if OEE had not transferred \$919,974 in GEER grant funds to reduce its deficit from **-\$1,171,356** to **-\$251,382**. OEE represented these funds as residual grant funds, but the transfer did not meet the definition of “residual funds” as outlined in USC policy. Except for \$71,398, these funds were earmarked for specific expenditures and future commitments under the GEER grant.

OEE STAFFING

OEE relies, in part, on *de facto* consultants (“special contract employees”). They are hired under contracts and represented 13.6% of the OEE workforce from 2018 through 2023. The University considers them temporary employees, but they do not observe breaks in service like other temporary employees. The Division of State Human Resources recommends that a temporary employee have a *bona fide* 15-day separation after 12 months of employment, only being rehired subject to a *bona fide* hiring process. Approximately 83.3% of OEE’s special contract employees remained employed for multiple, consecutive years with no break in service.

CONFLICT OF INTEREST

In 2021, USC’s Audit and Advisory Services (AAS) determined that a conflict of interest existed between OEE and an OEE employee who owned a company with whom OEE subcontracted to fulfill a grant. AAS found that an OEE official failed to disclose this conflict in violation of University policy. A senior OEE official withdrew USC’s renewal application for the grant and, in his capacity as an Incubator manager, signed a contract on behalf of the Incubator to receive the grant there, instead. This person then hired the same company, owned by the same OEE employee, as a subcontractor for the Incubator. USC’s conflicts of interest and commitment policy extends to outside activity if the activity affects or appears to affect the employee’s USC duties.

TRAVEL

Six of 162 travel reimbursements paid to OEE employees from 2019 through 2023 were for one employee to attend two galas and four sporting events, including the 2022 Gator Bowl in Jacksonville, Florida. OEE stated the gala trips were reasonable travel expenses which benefited the University as sponsorships and provided opportunities for outreach and networking for USC. OEE claimed golf tournament trips were reasonable travel expenses because they promoted corporate and industry engagement and provided outreach and marketing opportunities. The justification letter for Gator Bowl attendance stated the OEE employee hosted a businessperson and the businessperson’s family to discuss expanding student internship opportunities and potential partnership at the future health sciences campus on Bull Street. That businessperson denied attending the 2022 Gator Bowl. Five additional travel reimbursements were paid to an OEE employee who lived out-of-state so the employee could attend OEE meetings in Columbia, S.C.

P-CARD AND SOUTH CAROLINA BUSINESS OPPORTUNITIES (SCBO) POSTING VIOLATIONS

Despite the fact that USC policy states P-cards can only be used for official USC purchases, OEE used its P-card to make two purchases of less than \$500 each for the benefit of the Incubator. USC failed to post its sole source intent on the SCBO website before entering into an agreement with a company for access to a research database and an expert portal. That company was led by a friend and former colleague of an OEE official.

FACILITIES AND SECURITY

OEE IDEALABS

IdeaLabs, wet lab space managed by OEE, has consistently operated below capacity and rent potential. There is no marketing plan. While the IdeaLabs webpage advertises lab space for small businesses, regardless of their current affiliation with USC, criteria on lease agreements require tenants to have a relationship with the University or strong potential to forge such a relationship.

SAFETY PRACTICES AFFECTING OEE WORKPLACE

Compressed gas cylinders used and stored throughout the Horizon I Research Facility, to include IdeaLabs, contain flammable material and are vulnerable to theft. During two site visits in November 2023 and April 2024, we observed compressed gas cylinders, both in IdeaLabs and in the storage cage on the Horizon I Research Facility loading dock, that were not chained or strapped to a bracket or floor stand as required by USC policy and procedures.

SAFETY PRACTICES AFFECTING THE INCUBATOR

Incubator tenant member companies have complained about health and safety issues, including faulty wiring, a rat infestation, loiterers, and the presence of human excrement outside the building. The building has also had inoperable elevators, broken smoke alarms, and water damage, and there are potholes and loose gravel in the parking lot. We conducted mold testing in the building and found there were presumptive positive results for *Aspergillus* or *Penicillium* mold species on each floor.