

From: Maley, Patrick <PatrickMaley@oig.sc.gov>
To: Soura, Christian <ChristianSoura@gov.sc.gov>
Date: 3/18/2014 10:39:07 AM
Subject: FW: Question

First thing Thursday—8:30 or 9? Let me know. Below is an email I sent Mike Shealy today because he is in need of data to meet his responsibilities. I think I am going to do a letter to those with equities to speed getting actionable & relevant data into the hands of those who have to come up with a plan. It will be factually focused on PSA/1890, but I will also add in my team's observations which may be of use to help shape a plan forward. The other audit area of foundations will take longer as we trace funds with the current view that a substantial amount of foundation money comes from SCSU contracts with vendors as required donations.

See you Thursday morning.

Thanks

From: Maley, Patrick
Sent: Tuesday, March 18, 2014 10:27 AM
To: 'Mike Shealy'
Subject: RE: Question

Mike, only because the SCSU issue has so many equities, many of whom are doing their own data collection, I felt comfortable providing House Ways & Means, Senate Finance, BCB, and the Governor's Office my three issue scope. This helps us stay in our lanes, set expectations on results, and share audit data collection to save taxpayer money. Re the misconduct issue, I will not comment on any aspect of it until determined to be unfounded or adjudicated by the Board or Ethics Committee.

The IG realizes many equities are considering ways forward and are seeking data to help them. As a result, I am about 90% sure I will be writing a letter to the above 4 entities in the near term with my status on PSA/1890 funds because this issue most impacts SCSU's current financial distress. I have found no fraud or corruption to date. To date, PSA/1890 is mismanagement where financial indicators were flashing yellow (i.e. recurring annual deficits) which were covered over with diverting PSA/1890 funds as a matter of annual practice for as many as 5-7 years. The PSA/1890 fund diversion was comparatively small early (2007-2011), but mushroomed in the past 18 months leading to SCSU currently in a going concern state as set forth in its most recent BDO audit. Early, there is no evidence SCSU was going to repay PSA/1890, but in the past 12 months, SCSU employees showed leadership in addressing the PSA/1890 diversion as a liability although the capacity to repay was suspect. In short, management has been kicking the can down the road and avoided the "harder road" of management intervention many years ago to address the business issues of revenue and costs, which has made the problem worse. You can see SCSU accounts payable mushroom in a similar fashion, another missed blinking yellow sign, as well as other financial indicators which all end up causing today's financially distressed situation.

I will bore you with my view of complex organizational failure which I learned during a one of my investigations from a NASA big brain. Complex organizations don't fail because of one event. It is the cascading events the all compound one another. It is the operators slow rationalizations and lowering standards of what is acceptable that ends up being the ingredients for a catastrophic failure.

Thanks