Office of the Inspector General

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Allegations of Impropriety in the Procurement and Management of the OneCarolina Information Technology Project, University of South Carolina

File# 2016-1649-I

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I. Executive Summary

This review was predicated on a request from the University of South Carolina (USC) in response to allegations and inferences of impropriety raised in a series of five print media articles in March 2016. These articles contained a variety of allegations and inferences of impropriety and mismanagement pertaining to USC's multi-year information technology (IT) project known as "OneCarolina." The project was designed to overhaul the administrative systems supporting the student services and business functions. The Office of the State Inspector General (SIG) accepted two allegations for review: 1) a personal friendship between USC Deputy Chief Information Officer Jeff Farnham and George "Lynn" Derrick, an IT vendor to OneCarolina, created a conflict of interest and/or undue influence in the OneCarolina procurements and/or management of the project; and 2) the OneCarolina contract management was inadequate due to project delays and cost overruns.

The allegations and inferences revolved around the "red flag" suspicion created by a sequence of events starting with Derrick's SunGard employer obtaining the 2007 contract with USC; the decision to cancel this partially completed SunGard contract, despite having already purchased the finance and human resources (HR)/payroll software; and then the re-procurement of a technology solution for the same finance and HR/payroll components in 2013 from a new vendor, Oracle, represented by Derrick who changed companies. These transactions coupled with perception of a personal friendship between Farnham and Derrick, most notably, both having vacation timeshares in the same community on Bald Head Island, North Carolina, was perceived as a conflict of interest and possibly undue influence in the two USC procurements. The fact both contracts were perceived as mismanaged in terms of costs, delivery, and implementation, also seemed to fuel the "red flag" suspicions.

The OneCarolina project was designed to be implemented in two phases:

- Phase I started in late 2009 and provided a technology solution for the administration of student services using SunGard's Banner software. It had a capital budget of $35 million; a $2.5 million annual recurring budget for maintenance/operations expenses; and an operational delivery date of July 2012. The contract management results were: project completed 6% over initially budgeted costs; delivered a year beyond its budget timeline; and the workplace implementation and adjustment period appeared to be longer and more challenging than a typical IT implementation.

- Phase II started in 2013 and provided a technology solution for the administration of finance, human resources, and payroll using Oracle's PeopleSoft software. It had a three year, $34.8 million budget for capital expenditures and annual maintenance/operations expenses. The operational delivery date for finance was July 2015 and December 2015 for human resources along with payroll. The contract management results were: the finance component was delivered within its approximate budget timeline; the finance component's workplace implementation and adjustment period appeared to be longer and more challenging than a typical IT implementation; the human resources and payroll components will be delivered at least 18 months after its budget timeline; and Phase II final costs will materially exceed its initial $34.8 million budget after completion of the HR/payroll component.

The review did not identify any evidence Farnham, or anyone, placed undue influence on the procurement and management of the Banner system from SunGard, the decision to cancel the SunGard contract, or the procurement and management of the PeopleSoft system from Oracle. Twelve USC employees involved in the OneCarolina project procurements and management of the SunGard and Oracle contracts were interviewed under oath. Of these 12 employees, 12 were involved in the SunGard procurement, eight in the Oracle procurement, and seven in the decision to cancel SunGard leading to the Oracle procurement. Not one interviewee had any indication or evidence of anyone, to include Farnham, applying inappropriate undue influence.

Farnham, without question, did not violate the conflict of interest standard in the State's ethics law or USC's procurement policies. However, these standards only consider a conflict if some type of economic interest existed between Farnham and Derrick; there was none. Herein lies the core issue and problems to consider going forward. The public expects government officials to avoid the appearance of a conflict of interest or impropriety, which generated the "red flag" suspicions, five print media articles, and the end result of damaging the reputations of individuals, USC, and State government; yet, State government and USC have no such conduct expectation standard for its employees to avoid "appearance" issues.

From 2007 through the present, SunGard and Oracle received tens of millions of dollars in contract revenue from USC, and both companies will continue to receive more than a million dollars per year, combined, for the foreseeable future in annual software maintenance fees. Throughout this time, Derrick worked as the lead salesman for SunGard and later an Oracle manager during the period of each company's USC contract award, while concurrently, Farnham, an IT executive, administratively supervised the OneCarolina project director. During this almost decade long business relationship involving millions of dollars, in 2010, Farnham bought a timeshare in the same Bald Head Island, North Carolina, community as Derrick, which was based on a suggestion from Derrick. Add in Farnham attended the wedding of Derrick's son and Facebook photos of the two, and you do not have to be a disgruntled employee to question a potential conflict of interest by Farnham. The SIG does not have any evidence of, nor even suspects, a nefarious relationship between Farnham and Derrick impacting USC contracts, yet this relationship created an "appearance" issue causing damage to USC. USC has equities in preventing its employees' conduct that creates appearance issues, particularly with vendors, but it has not exercised its authority with policies to prevent this potentially damaging conduct.

USC is not alone because, unfortunately, similar situations occur in State government, as well as in all governmental bodies. When compared to the private sector and professions, governmental bodies tend to resist adding the conduct standard to "avoid the appearance" of an impropriety or a conflict of interest. This generally stems from arguments an "appearance" standard lacks clear criteria to measure the alleged conduct, which then could lead to accidental violations and inadvertent harm to an employee. The argument is hollow because "appearance" issues, whether an agency has a standard or not, cause real reputational damage as these allegations ricochet and morph in their travel through the variety of 24/7 media forums. Further, if an employee inadvertently violates an appearance standard, the penalty is not criminal, but rather an appropriate administrative admonishment based on the degree of deviation from a practical standard to be more self-aware of his/her actions to prevent damage to the employee and the government institution. In the end, USC should strongly consider adding an appearance standard because the public expects it; prevents employee and agency reputational damage; and it is good government. Implementation will be easy because employees, particularly South Carolina State employees, will do what is expected of them when provided clear, unambiguous direction.

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II. **Background**

A. **Predicate**

This review was predicated on a request from the University of South Carolina (USC) in response to allegations and inferences of impropriety raised in a series of five print media articles in March 2016 (*see Appendix A*). The articles alleged and inferred four main issues. The Office of the State Inspector General (SIG) accepted two issues for investigation: 1) a personal friendship between USC Deputy Chief Information Officer (CIO) Jeff Farnham and George "Lynn" Derrick, an IT vendor to OneCarolina, created a conflict of interest and/or undue influence in the OneCarolina procurements and/or management of the project; and 2) the OneCarolina contract management was inadequate due to project delays and cost overruns.

Two issues raised in the public media were not accepted for investigation. First, it was alleged and inferred Farnham, as well as other USC employees, inappropriately engaged subordinate employees at USC to become involved with Farnham's outside business interests in ACN, a national multi-level marketing company. Farnham's alleged ACN conduct is a routine personnel misconduct issue better addressed by an USC Human Resources administrative inquiry followed by the application of USC's internal code of conduct policies. Second, unclear or questionable rationale was allegedly used to justify a non-competitive contract between USC and IBM to outsource components of USC's IT services within a new, broader business partnership. The IBM partnership, to include its non-competitive IT outsourcing component, was deemed unreviewable. USC management, as with all other State agencies, needs to have the wide latitude to make business decisions, particularly long-term partnerships, and the procurement exemption to the competitive bid process appeared to have been properly approved within the established State procurement code and regulations.

B. **Scope and Objectives**

This review's scope and objectives were:

- Assess the effectiveness of USC's contract management (costs & time) of implementing a technology solution for the administration of student services, finance, and human resources/payroll functions with the Banner system contracted from SunGard;

- Assess the business case for cancelling the SunGard contract for finance and human resources/payroll components and issuing a second contract to Oracle for two new technology solutions for these same two components;

- Assess the effectiveness of USC's contract management (costs & time) of implementing a technology solution for the administration of finance and human resources/payroll functions with the PeopleSoft system contracted from Oracle;

- Determine if Farnham's personal friendship with Derrick violated any State or USC ethical conflict of interest standard; and

- Determine if Farnham inappropriately influenced USC's procurements with SunGard or Oracle, as well as the decision to cancel the SunGard contract leading to a second procurement for technology solutions for finance and human resources/payroll components from Oracle.

Reviews by the SIG are conducted in accordance with professional standards set forth by the Association of Inspectors General, often referred to as the "Green Book."

C. OneCarolina Overview

The USC is a multi-campus university system having eight campus locations offering more than 450 degree programs. USC operates with 15,000 employees serving 49,000 students annually.

The genesis for OneCarolina goes back to the early 2000s. In 2005, Chief Information Officer (CIO) Bill Hogue stated to the Board of Trustees (Board) that OneCarolina was "the most ambitious and far-reaching transformation of information tools and digital resources in the history of the University." Its purpose was to completely overhaul USC's 30-year old administrative system supporting the student and business systems. A Request for Proposal (RFP) was issued in 2006 to implement technology solutions for three systems: student services; finance; and human resources (HR) which included payroll. The RFP was awarded to SunGard for their Banner IT system.

The project was designed to be implemented in two phases:

- Phase I – student services: Due to an appeal of the contract award to SunGard and the impact of the 2008 recession, Phase I was delayed until October 2009. Phase I had a capital budget of $35 million; a $2.5 million annual recurring budget for maintenance/operations expenses; and an operational delivery date of July 2012.

- Phase II – finance and HR/payroll: Due to several factors, USC cancelled its agreement with SunGard for student services implementation in mid-2011, and later determined not to implement the Banner (SunGard) software for Finance and HR/Payroll component. A second RFP was issued in 2012 for these same two components. Oracle was awarded the technology solution contract using their PeopleSoft IT system for the finance and HR/payroll components. Phase II had a three year $34.8 million budget for capital expenditures and annual maintenance/operations expenses, as well as an operational delivery date of July 2015 for finance and December 2015 for HR/payroll.

III. OneCarolina Technology Solution Procurements

A. Project Management

Farnham served as the OneCarolina Project Director, in addition to other duties, since he began working at USC in 2002. In 2008, USC established a Project Management Office to implement OneCarolina, which also approximately coincided with Farnham's promotion to Deputy CIO and the hiring of a fully dedicated Project Director. The Project Director reported functionally to CIO Hogue and administratively to Deputy CIO Farnham.

Prior to the start of Phase I, at the suggestion of an external consultant, an OneCarolina project management structure was established where the Project Director reported through the CIO to an overarching Executive Steering Committee (ESC) composed of primarily user groups (*see Appendix B*). This structure was re-organized for Phase II implementation at the suggestion of an independent verification and validation consultant (*see Appendix C*). In the Phase I organizational chart, Farnham was not listed. In the Phase II organizational chart, Farnham was not in the project management chain of command; rather, he was listed with several other users in a technical advisors group.

B. Procurement of Banner System from SunGard

In early 2006, USC issued an RFP (USC-RFP-0622-JN) to essentially replace its current mainframe IT system with an enterprise-wide technology solution project known as OneCarolina Enterprise Resource Planning (ERP). The intent of this ERP was to unify the student and business administrative systems from all eight campuses and provide a critically-needed update to USC's payroll system.

RFP proposals were received from three companies: Oracle, SunGard, and SAP. The RFP evaluation panel contained five members from the OneCarolina user groups representing student services, human resources, finance, technology, and sponsored programs. The panel ranked Oracle's proposal the highest. As a result, USC entered into contract negotiations with Oracle. Negotiations failed and the RFP was cancelled, apparently based on disagreements over a Master Service Agreement (MSA).

In December 2006, a new RFP (USC-RFP-0943-BB) was issued similar to the prior RFP with the added requirement of a MSA. Only Oracle and SunGard provided proposals. The USC procurement officer determined Oracle's proposal as non-responsive, which disqualified Oracle from further consideration. According to the procurement officer, he provided ample opportunity for Oracle to address its non-responsive issues, but without success. As a result, SunGard's proposal was the only proposal evaluated by the panel and found to be acceptable. A negotiated contract was finalized with SunGard, which provided a 70% discount on its bundled products to include student services, finance, HR and payroll. In August 2007, the intent to award was made to SunGard.

Oracle protested the intent to award decision to the Chief Procurement Officer (CPO) and, subsequently, appealed the CPO's decision to the South Carolina Procurement Review Panel (SC PRP). Both entities upheld the determination Oracle was non-responsive with the SC PRP stating, "We find that Oracle did not conform in all material aspects to the RFP and uphold the intent to award to SunGard." The appeal coupled with other economic factors caused a delay in the Board approval to begin the project until late 2009.

OneCarolina was planned to be implemented in two phases. Phase I was to implement the student services component with a capital budget of $35 million; a $2.5 million annual recurring budget for maintenance/operations expenses; and an operational delivery date of July 2012. The OneCarolina team would have to come back to the Board for approval to start Phase II – implementation of the finance and HR/payroll components.

Implementation of the SunGard's Banner student services component began in 2010. In mid-2011, USC dismissed SunGard from the project due to its inability to provide personnel with appropriate technical capabilities. The "final straw" occurred when SunGard installed a critical database incorrectly. In short, SunGard's contract for delivery of an operational Banner system was cancelled, and USC took complete ownership of completing the student service component using its "in-house" personnel and independent contract resources.

All aspects of the student services component were delivered by June 2013, a year beyond the project's initial budget timeline. As with all IT system implementations, there was a period of adjustment and fine tuning the student services component, which appeared by many accounts to be longer and more challenging than a typical technology solution implementation. The student services component was considered "stable" in the spring of 2014 and fully delivered by June 2014. Its actual capital costs were approximately $37.1 million, which exceeded its capital budget of $35 million by 6%. Its five years of annual maintenance/operations expenses totaled $12.1 million, which was within its $2.5 million annual budget. The total expenditures for the Banner student services component through June 2014, when Phase I was determined to be complete, was $56.6 million

($37.1 million capital costs + $12.1 maintenance/operations + $7.4 million start-up costs prior to 2010). To USC's credit, an external consultant conducted a "lessons learned" review for the implementation of the student services component identifying weaknesses and opportunities to improve (*see Appendix D*).

C. Business Case for Cancelling the SunGard Finance and Human Resources/Payroll Components

The seven interviewees with knowledge of USC cancelling SunGard's finance and HR/payroll components were consistent in describing the rationale for this decision. The decision was driven by the functional users of these two components, who had concerns with SunGard's poor performance implementing the Banner student services component. During the RFP process, SunGard presented itself as having consultants capable of handling the implementation, yet its personnel were terminated midway through the Banner student services component for lack of effectiveness. Additionally, functional managers questioned if advancement in technology had rendered the original purchase of Banner finance and HR/payroll software obsolete inasmuch as it was five years since Banner's proposal in response to the 2006 RFP's technical requirements. This internal discussion began in late 2011 or early 2012. A document dated February 2012 titled, "OneCarolina HR/Payroll Bridging Strategy", specifically explored this issue with options including implementing SunGard payroll; using SCEIS; outsourcing to a 3rd party; evaluating other industry leaders; and remaining with the current payroll system.

USC's measurable sunk costs in the SunGard contract included a $592,000 purchase of Banner software for finance and HR/payroll and an estimated $650,000 in contractual maintenance fees to Banner for these two software components over the prior five years. Certainly, USC employees' time for procurement efforts and planning were substantial, but not quantifiable.

In September 2012, the concern expressed by functional personnel regarding Banner's implementation capabilities and the reliability of the already procured software components led to the issuance of an RFP (USC-RFP-2305-BB) requesting vendor responses solely for the finance and HR/payroll components. Responses were received from Deloitte (Workday system), Oracle (PeopleSoft system) and ADP. SunGard did not respond to the RFP, however, it was given the opportunity to demonstrate its product already under contract. One individual described SunGard's demonstration as "disappointing… with no evolution of its software since 2006" and SunGard did not have a path forward in developing its components.

The RFP evaluation panel consisted of representatives from USC's finance, HR, and payroll departments. One panelist stated being given the directive by a functional area executive to choose the best software for the university that will last for the next 15 to 20 years without concern for costs. Ultimately, the panel evaluated Oracle's proposal the highest. In October 2013, Oracle was awarded the contract to provide the finance and HR/payroll components.

D. Procurement of the PeopleSoft System from Oracle

In October 2013, the USC Board approved Phase II to begin. Oracle provided the finance and HR/payroll components through its PeopleSoft system, but USC "owned" the delivery and successful implementation using its "in-house" personnel and independent contract resources.

Phase II had a three year, $34.8 million budget for capital expenditures and annual maintenance/operations expenses with an operational delivery date of June 2015 for finance and December 2015 for HR/payroll. All aspects of the finance component were delivered approximately on time in July 2015. As with the student services component, there was a period of adjustment and fine tuning the finance system. Again, it appeared by many accounts to be longer and more challenging than a typical technology solution implementation. Interviewees suggested this was due to a rush to meet the implementation deadline, along with the volume of new subcomponents implemented within the finance component. The finance component was considered "stable" in the spring 2016 and fully delivered by June 2016.

As of May 2016, approximately $32.8 million (94%) of its $34.8 million budget was expended, yet only the finance component was delivered and HR/payroll was estimated at 65% complete. Further, HR/payroll implementation was halted to focus on the finance component, and presently it is undetermined as to when the implementation will re-start. Completion of Phase II will certainly materially exceed its $34.8 million budget and the HR/payroll component will be at least 18 months delayed in delivery. As with the student services component implementation, to USC's credit, an external consultant conducted a "lessons learned" review for the implementation of the finance component identifying weaknesses and opportunities to improve (*see Appendix E*).

IV. Allegations of Impropriety – Undue Influence & Conflict of Interest

A. Jeff Farnham's Relationship with George "Lynn" Derrick

According to Farnham, he first met Derrick in 2005 when introduced as SunGard's new salesman whose territory included USC. Farnham had a professional relationship with Derrick, as he did with other vendors involved in the OneCarolina procurement. After SunGard was awarded the OneCarolina contract in 2007, Farnham recalled an occasional business lunch with Derrick where Farnham always paid for his own meal, as well as attendance to an annual national educational meeting and an annual SunGard meeting/tradeshow where Derrick was also in attendance.

Farnham itemized his non-work, social interactions with Derrick that occurred following the contract award to SunGard in 2007. On one occasion in 2008, Farnham participated with Derrick in a boat trip from Charleston, SC, to Savannah, GA, using their individually-owned boats at personal expense. During a professional interaction, Derrick mentioned he had purchased a timeshare on Bald Head Island, North Carolina. Farnham later purchased a timeshare in the same community as Derrick in 2010, three months after Derrick's purchase. At the Bald Head Island timeshare community, there were three or four occasions when Derrick and Farnham's families were there at the same time and another occasion at that island when Farnham attended the wedding of Derrick's son. Farnham and Derrick, along with their wives, had one dinner at a restaurant in Columbia, which was stimulated by discussing homeowner association issues at the Bald Head Island timeshares. In 2014, Farnham and Derrick took a second joint boat excursion in their individually-owned boats on the intra-coastal waterway from McClellanville to Charleston, South Carolina.

Farnham advised he has never been to Derrick's personal residence, nor has Derrick been to his personal residence; each lives within 20 miles of one another near Columbia. They both have personal recreational boats, yet neither has been on each other's boat or boated together on Lake Murray near their residences. The two were connected through Facebook, but since the media articles, Farnham has severed this connection.

Excluding Farnham, the investigation interviewed 12 USC employees under oath, as well as one other witness who sought out the investigators to voluntarily provide information. Of these 13 witnesses, who worked in and around OneCarolina and Farnham, 10 had no knowledge of Farnham and Derrick's alleged social relationship outside of work, and many were surprised with the allegations and inferences of this relationship described in the public media articles. One witness, who works in close proximity to Farnham, stated Farnham and Derrick were friends, however his only information of a non-work social relationship was knowledge the two had taken a boat excursion and had timeshares on Bald Head Island, likely learned from Facebook photos. A second witness was aware of the boat excursion and thought there were other boating outings between the two, but had no first-hand information. A third witness, a USC executive, was told by Derrick that he and Farnham were developing a friendship. This executive inquired with Farnham about this issue due to Derrick being a vendor at USC. According to the executive, Farnham did not perceive his relationship with Derrick at that same level. During interview, Farnham had no recollection of the executive making this inquiry.

In summary, Farnham viewed Derrick as a workplace friend, and other than the two boat excursions, the wedding, and one restaurant dinner, their only other non-work interaction in the past decade or so was their common interest in Bald Head Island with timeshares in the same community. Farnham denied ever receiving a gift or gratuity from Derrick. As an aside, in addition to the timeshare, Farnham made other real estate purchases in the recent past and voluntarily provided documents demonstrating his personal assets were used for all of these purchases.

B. Analysis of Undue Influence

The analysis of the alleged or inferred undue influence by Farnham to benefit Derrick focused on three issues: (1) the 2006 procurement and management of the Banner system and SunGard contract; (2) the business case for cancelling the contract with SunGard; and (3) the 2013 procurement and management of the PeopleSoft system and Oracle contract.

Twelve USC personnel associated with these procurements and business decisions were interviewed under oath. All of these witnesses (procurement officer; one evaluation panelists; three executives; six technical advisors; and the project director) were involved with the SunGard contract procurement and/or Banner system implementation. Not one interviewee had any indication, let alone evidence, of anyone, to include Farnham, applying inappropriate undue influence on the SunGard procurement and subsequent management of the contract.

Seven USC personnel (three executives; two evaluation panelists; one technical advisor; and the project director) were involved with the decision to cancel the SunGard contract and re-open the procurement of the finance and HR/payroll components. Not one interviewee had any indication, let alone evidence, of anyone, to include Farnham, applying inappropriate undue influence on this business decision.

Eight USC personnel (procurement officer; four executives; two evaluation panelists; and the project director) were involved with the Oracle contract procurement and/or PeopleSoft system implementation. Not one interviewee had any indication, let alone evidence, of anyone, to include Farnham, applying inappropriate undue influence on the Oracle procurement and subsequent management of the contract.

C. Conflict of Interest

1. State and USC Ethical Standards

The State Code of Law (Section 8-13-700-B) sets forth the State's conflict of interest ethics law in influencing a government decision, with the key element being, "No public official, public member, or public employee may make, participate in making, or in any way attempt to use his office, membership, or employment to influence a governmental decision in which he, a family member, an individual with whom he is associated, or a business with which he is associated has an economic interest." Derrick was not considered "an individual with whom he is associated" inasmuch as this would require Farnham or his immediate family member to have a business interest with Derrick, which was not the case.

USC did not have a formal employee code of conduct beyond the State ethics laws. However, USC contract procurements had a practice for individuals evaluating RFPs to sign a conflict of interest and confidentiality certification. The certification required a recusal if the evaluator's involvement with a proposing organization had a financial aspect; business relationship; was a prospective employer; or the evaluator provided technical assistance to the offeror in preparing the proposal.

It was noted USC's Purchasing Department currently had a draft policy, undated, for "Acquisition and Payment of Goods and Services," which also contained a conflict of interest policy. The policy states, "no employee, officer, or agent shall participate in the selection, award, or administration of a contract if a real or apparent conflict of interest would be involved. Such a conflict would arise when the employee, officer, or agency, any member of his or her immediate family, his or her partner, or an organization which employs or is about to employ any of the parties indicated herein, has a financial or other interest in the firm selected for an award; **or the employee has any other relationship with the firm or members of the firm involved in the procurement process which may give rise to questions concerning the employee's ability to be fair and impartial in his/her decisions** (SIG emphasis)**."**

2. Analysis of Conflict of Interest

Similar to the previous undue influence analysis, the conflict of interest analysis focused on three time periods where specific transactions occurred: (1) the 2006 procurement and management of the Banner system and SunGard contract; (2) the business case for cancelling the contract with SunGard; and (3) the 2012 procurement and management of the PeopleSoft system and Oracle contract.

For the 2006 Banner system procurement from SunGard, Farnham only knew Derrick as one of many technology vendors interacting with USC. He had a professional relationship with Derrick, as he did with all other vendors. There was no evidence from any witness of Farnham having more than a professional client/vendor relationship during this period of time. Further, Farnham signed the RFP conflict of interest certification during the procurement of the Banner system from SunGard in 2007 (*see Appendix F*). There is no evidence Farnham's association with Derrick violated these standards, however, these expected standards pertained to only financial relationships, not personal relationships.

In late 2011 or early 2012, the business case to cancel the SunGard contract and re-procure the finance and HR/payroll components originated with functional area personnel, primarily in finance, HR, and payroll. Not one interviewee recalled Farnham as the source or stimulating this business decision. Further, at this time, Farnham was an executive within the structure of University Technology Services Division (UTS) and served on an advisory group to OneCarolina, and he had no direct line of authority over the project since leaving as the project director in 2007.

The RFP leading to the 2013 Oracle contract with USC was issued in September 2012. Farnham was not on the procurement evaluation panel. However, Farnham did view vendor demonstrations along with 20-40 other USC personnel, and he, again, executed the procurement conflict of interest certification (*see Appendix G*). It is noted again for emphasis, the USC conflict of interest standard pertained to only financial relationships, not personal relationships. Clearly at this time, the relationship had spilled beyond a workplace friendship due to the common interest outside of the workplace in Bald Head Island timeshares. Still, regardless how anyone assessed the degree of this relationship, USC's conflict of interest standard only considered financial relationships, not personal relationships.

It is common in State government conflict of interest allegations for complainants, often the public or fellow co-workers, to apply a common sense relationship or "appearance of a conflict of interest" standard on a situation, such as Farnham and Derrick's perceived friendship coupled with Derrick's company having a multi-million dollar contract with USC. Even using these standards, which neither the State nor USC had, employees interviewed aware of Farnham and Derrick's workplace relationship were surprised by the allegations and inferences in the public media of the extent of their alleged social relationship because they did not observe this conduct.

V. Way Forward

The State ethics law's aspirational intent is completely aligned with the public's expectation pertaining to conflict of interest when it states in its 1992 preamble, "Officials should be prepared to remove themselves immediately from a decision, vote, or process that even appears to be a conflict of interest." However, implementing this aspiration was not realized in the conflict of interest law, which only focused on financial interests and was completely silent pertaining to "appearance" issues. Limiting conflicts of interest to only financial interests is a perfectly reasonable standard if criminal liability is attached. However, from an administrative ethical perspective, the public expects public servants to comport themselves in a manner to even avoid the appearance of a conflict of interest or impropriety. A perception can do as much damage as an actual ethical transgression. Unfortunately, no such administrative ethical "appearance" standard exists to guide State or USC employees' conduct, which can allow well intentioned employees to incrementally slip into a "perfect storm" resulting in, and unnecessarily so, damaged reputations to individuals, agencies, and State government as a whole.

The USC Purchasing Department's current draft conflict of interest standard, which includes an apparent conflict of interest component, has it exactly right. Its apparent conflict of interest standard includes personal relationships. When compared to the private sector and professions, governmental bodies tend to resist adding the conduct standard to "avoid the appearance" of an impropriety or a conflict of interest. This generally stems from arguments an "appearance" standard lacks clear criteria to measure the alleged conduct, which then could lead to accidental violations and inadvertent harm to an employee. The argument is hollow because "appearance" issues, whether an agency has a standard or not, cause real reputational damage as these allegations ricochet and morph in their travel through the variety of 24/7 media. Further, if an employee inadvertently violates an appearance standard, the penalty is not criminal, but rather an appropriate administrative admonishment based on the degree of deviation from a practical standard to be more self-aware of his/her actions to prevent damage to the employee and the government institution. In the end, USC should strongly consider adding an appearance standard because the public expects it; prevents employee and agency reputational damage; and it is good government. Implementation will be easy because employees, particularly South Carolina State employees, will do what is expected of them when provided clear, unambiguous direction.

VI. Findings & Recommendations

Finding #1: Farnham did not violate any State or USC conflict of interest standard during the procurement of the Banner system from SunGard, the decision to cancel the SunGard contract, or the procurement of the PeopleSoft system from Oracle.

Finding #2: There was no evidence Farnham, or anyone, placed undue influence on the procurement of the Banner system from SunGard, the decision to cancel the SunGard contract, or the procurement of the PeopleSoft system from Oracle.

Finding #3: The unusual nature of Derrick representing SunGard and then Oracle in USC's multi-million dollar OneCarolina Project coupled with Farnham, a USC IT executive, buying a timeshare in the same Bald Head Island, North Carolina, community as Derrick's timeshare, along with tangible social interactions, created the "appearance" of a conflict of interest stimulating "red flag" suspicions causing reputational damage to Farnham and USC.

> **Recommendation #3a:** USC, which does not have an employee code of conduct, should consider adopting Governor Haley's 2015 template code of conduct and include language similar to its Purchasing Department's current draft conflict of interest policy addressing "apparent conflicts of interests."
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> **Recommendation #3b:** USC should consider increased clarity in its Purchasing Department conflict of interest policy by noticing all employees, not just Purchasing Department employees and evaluation panelists, involved in any aspect of a procurement, such as developing requirements or supervising the procurement, that they are equally bound by the Purchasing Department's conflict of interest policy.
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> **Recommendation #3c:** USC should consider requiring its employees interfacing with vendors to avoid developing personal or social relationships which can create an appearance of a conflict of interest in future procurements, as well as have a duty to disclose, or recuse, in future procurements if a personal or social relationship already exists.
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> **Recommendation #3d:** USC should consider new RFP procurement policies to promote higher integrity standards and further protect procurements from the risk of real or perceived undue influence by protecting the identity of the evaluators prior to the procurement; require evaluators to report in writing to the procurement officer any contact which has a nexus to the planned procurement; and set a dollar threshold, such as in excess of $1 million, to require at least two evaluation panel members be from outside USC.

Finding #4: The Student Services component of the Banner system was completed 6% over initially budgeted costs; delivered a year beyond its budgeted timeline; and the workplace implementation and adjustment period appeared longer and more challenging than a typical IT implementation.

Finding #5: A review of Phase II of the OneCarolina project determined the Finance component of the PeopleSoft system was delivered within its approximate budget timeline; the Finance component's workplace implementation and adjustment period appeared longer and more challenging than a typical IT implementation; the HR/payroll component will be delivered at least 18 months after its budget timeline; and Phase II final costs will materially exceed its initial $34.8 million budget after completion of the HR/Payroll component.

Finding #6: The decision to cancel the Banner systems' finance and HR/payroll components appeared to have a sound business rationale.

ADMINISTRATIVE NOTE:

USC's comments on report located at link: http://oig.sc.gov/Documents/USC-Response-to-OneCarolina-Review.pdf.