

State of South Carolina
Office of the Inspector General

August 29, 2017

The Honorable Wm. Weston J. Newton
Chairman, House Legislative Oversight Committee
228 Blatt Building
Columbia, South Carolina 29201


Re: State Inspector General's (SIG) report titled, "Review of Allegations of Failure to Report a Criminal Misconduct Matter and the Relationship between the South Carolina Vocational Rehabilitation Department and ALLIED Opportunities, Inc."

Dear Representative Newton:

Enclosed with this letter for your review is the captioned report along with a CD-ROM containing the appendices to the report. This investigation was initiated based on the House Legislative Oversight Committee's (LOC) referral of anonymous complaints to the SIG in January 2017, wherein misconduct and mismanagement were alleged to have occurred at the South Carolina Vocational Rehabilitation Department. This report is being provided to the LOC as the report impacts an agency which may come under review by the oversight committee during its seven-year review cycle.

The SIG is available to personally brief recipients of this letter or any other legislative personnel with an interest. Feel free to contact me 24/7 on my cell (803/605-3161) for any questions, concerns, or clarifications you may have.

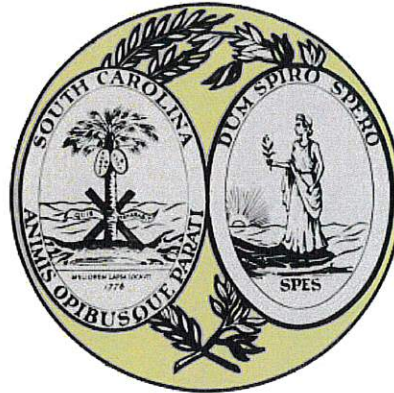
Sincerely,


Brian D. Lamkin
State Inspector General

Enclosures (2)

Office of the Inspector General

Brian D. Lamkin



**Review of Allegations of Failure to Report a Criminal
Misconduct Matter and the Relationship between the
South Carolina Vocational Rehabilitation Department and
ALLIED Opportunities, Inc.**

I. Executive Summary

In January, 2017, the Office of the State Inspector General (SIG) initiated a review of the South Carolina Vocational Rehabilitation Department (SCVRD) based on a credible complaint of mismanagement and misconduct within SCVRD. The SIG identified two specific issues which warranted review: (1) that SCVRD officials failed to report and mishandled a sexual misconduct matter between an SCVRD supervisor and a South Carolina Department of Corrections (SCDC) inmate; and (2) that SCVRD created a non-profit company, ALLIED Opportunities, Inc. (ALLIED), and entered into a vendor contract relationship in order to employ former senior SCVRD officials wherein one former SCVRD commissioner received questionable payments in the amount of \$8,000 per month.

Beginning in the early 2000s, the SCVRD and SCDC entered into an agreement for inmates from the SCDC Broad River Correctional facility to perform grounds keeping duties at SCVRD's main office complex in West Columbia. Between December 2013 and June 2014, an SCVRD supervisor of the SCDC work detail engaged in criminal sexual misconduct with two female inmates assigned to the work detail. SCVRD executive management was alerted to this in early July 2014 by the SCDC at which time SCVRD cooperated fully with SCDC investigators. This resulted with the prompt termination from SCVRD employment of the former supervisor when he confessed to the SCDC investigators. On 7/29/2014, the former supervisor was arrested and charged with multiple counts of criminal sexual misconduct with an inmate. On 4/11/2017, the former supervisor pleaded guilty to one count of second degree assault and battery and was sentenced to one year upon time served, a fine of \$250 with the balance of the sentence suspended, and one year probation. The SIG's review determined the SCVRD acted promptly and cooperated with SCDC criminal investigators when the matter was brought to its attention. Based on this information, the SIG determined the allegation that SCVRD failed to report and mishandled a complaint of sexual misconduct is unfounded.

The SCVRD serves South Carolina citizens with a physical or mental impairment that substantially impedes employment by assisting clients in obtaining, retaining, or regaining employment. These services take on a variety of forms and are delivered through SCVRD's \$144 million budget, and the 1,200 employees assigned to 31 local offices, one evaluation center, one substance abuse treatment facility, and its central office in West Columbia, South Carolina. These services are provided through arrangements with the federal government and other departments, agencies and institutions in accordance with regulations of the Rehabilitation Act of 1973, 34 CFR Part 361. Among the various services outlined in the Rehabilitation Act of 1973, is the Community Rehabilitation Program (CRP). With a change to the rehabilitation services law in 2001, the ability of SCVRD clients to maintain extended employment within the vocational rehabilitation (VR) program ended. Emphasis was placed on state VR agencies directing clients into integrated work settings.

The CRP was flexible enough that there was no "cookie-cutter" approach on how each state administered its VR program. Most states partnered with existing CRPs which were external to their VR agency. However, South Carolina, Mississippi and Massachusetts initiated their own internal CRP which was allowed under the CRP law. Generally, clients hired by the CRP were considered to have achieved a successful employment outcome, which was consistent with the revised law.

In 2005, SCVRD created ALLIED Opportunities, Inc. (ALLIED) as an internal CRP. ALLIED's initial start-up and costs were borne by SCVRD in accordance with regulations of the Rehabilitation Services Administration, U.S. Department of Education, to include staffing and financial support. Through SCVRD's efforts, ALLIED was placed on a sole source contract with SCVRD in 2009 to fulfill the temporary employment needs of SCVRD clients. By 2011, ALLIED's program director successfully completed the process of ALLIED being

placed on the statewide vendor contract through the Materials Management Office. As such, ALLIED was positioned to offer its employment staffing services to any state agency, to include SCVRD.

In August 2012, SCVRD and ALLIED entered into a five-year Memorandum of Understanding (MOU) agreement which called for ALLIED to support staffing services in all SCVRD work training centers, and a framework in which SCVRD would provide services to non-SCVRD applicants referred by the Veterans Administration. Under the agreement, ALLIED was required to provide the next step in the rehabilitation process to many SCVRD clients, provide employee placement services, and fill employment positions for SCVRD business contracts. While SCVRD was not ALLIED's only client, it was the largest in terms of contracted services and payments received. For the fiscal years of 2008 – 2017, SCVRD made a total of \$8,275,430 in vendor payments to ALLIED.

ALLIED maintained permanent staffing to operate its three primary programs: employment program, loan program, and the Veteran's program. These permanent employees held various backgrounds and associated VR program experience, some of whom were retired SCVRD employees, to include two former assistant commissioners and one former SCVRD commissioner, four previous SCVRD clients, and two individuals with no prior SCVRD affiliation.

It was a common practice for SCVRD to employ newly retired SCVRD commissioners as a "special contract" employee or consultant to assist the newly hired commissioner in a transitional role. This occurred on three prior occasions with retired SCVRD commissioners and was limited in duration. In each instance, the requisite approvals and documentation was retained by SCVRD.

However, in 2016 the retired SCVRD commissioner was hired by ALLIED as a consultant to the incoming SCVRD commissioner on a part-time basis. This was not consistent with past SCVRD practice and ALLIED's hiring of the former commissioner was inconsistent with the provisions of the statewide contract and MOU agreement. There was insufficient documentation of the contractual relationship as well as the work provided during the first eight months of the consultant relationship. The average monthly payment for these services was \$7,920 which was comprised of the \$75 per hour rate and a 32% markup. The SCVRD commissioner provided insufficient oversight of the consultant's work duties. As a result, SCVRD made payments to ALLIED which were thinly documented at best, if not unsupported. When the matter was brought to the attention of SCVRD executive management, stricter oversight and documentation was given to this contracted service. ALLIED terminated the services of the former commissioner in December 2016.

Following various public reports of the SCVRD and ALLIED relationship, the SCVRD executive leadership and its Board of Directors (Board) chairperson conducted a performance review of the SCVRD and ALLIED relationship to ascertain the benefit to SCVRD programs. By letter dated 1/25/2017, the SCVRD commissioner notified ALLIED of the termination of the joint agreement with an effective date of 4/25/2017, which was already set to expire in July 2017. This basically resulted in ALLIED's cessation of operations since SCVRD was ALLIED's predominant source of income. SCVRD subsequently offered part-time employment to 26 of the 28 ALLIED employees who were former SCVRD clients.

The creation of ALLIED as a CRP by SCVRD was consistent with federal regulations and the Rehabilitation Act of 1973. Even though the creation of an internal CRP was unusual for a state VR program it was not restricted by the federal government. As such, the relationship between SCVRD and ALLIED was permissible under federal law and regulations. By all accounts SCVRD exercised the appropriate level of oversight during ALLIED's initial years of operation.

However, this oversight lessened over the ensuing years under a newer SCVRD commissioner when updates to the SCVRD Board on ALLIED's progress subsided. While ALLIED's mission and purpose remained

consistent in its support to SCVRD and the employment of SCVRD clients, its hiring practices became more focused on being a third-party vendor which SCVRD used to its advantage as a work around to other standard hiring and procurement practices.

While ALLIED's employment of two former SCVRD assistant commissioners with VR experience to provide program management for its employment and loan programs was permissible, it also hired two managers to provide grounds keeping oversight, one of whom was the spouse of a current assistant commissioner. In addition, ALLIED extended part-time employment to a former SCVRD commissioner to provide consultant services to the succeeding commissioner at that time. Additionally, SCVRD utilized ALLIED to contract for IT services. These three additional hires and the contracting for IT services were outside the scope of the statewide contract. Additionally, the SCVRD did not request approval from MMO or ITMO to engage ALLIED for these services.

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ADMINISTRATIVE: SCVRD’s comments on report located at Internet link:
<http://oig.sc.gov/Documents/SCVRD-Response.pdf>

II. Background

A. Predicate

In January, 2017, the Office of the State Inspector General (SIG) initiated an investigation based on a credible complaint of allegations of mismanagement and misconduct within the South Carolina Vocational Rehabilitation Department (SCVRD). The SIG identified two specific issues for review: (1) that SCVRD officials failed to report and mishandled a sexual misconduct matter between an SCVRD supervisor and a South Carolina Department of Corrections (SCDC) inmate; and (2) that SCVRD created a non-profit company, ALLIED Opportunities, Inc. (ALLIED), and entered into a vendor contract relationship in order to employ former senior SCVRD officials wherein one former SCVRD commissioner received questionable payments in the amount of \$8,000 per month.

B. Scope and Objectives

The scope and objectives of this review were to:

- Determine if SCVRD failed to report or mishandled a complaint of sexual misconduct between an SCVRD supervisor and an SCDC inmate;
- Determine the legitimacy of the vendor relationship between SCVRD and ALLIED;
- Determine the amount of appropriations paid to ALLIED by SCVRD, and the validity of the allegation a former SCVRD commissioner received \$8,000 per month in retirement; and
- Determine appropriateness of the practice of hiring former SCVRD officials, to include a former commissioner, two assistant commissioners, and a spouse of an assistant commissioner, among others, into positions with ALLIED.

III. Allegation of Failure to Report a Sexual Misconduct Complaint

In the early 2000's, the SCVRD and SCDC entered into an agreement whereby inmates from the SCDC Broad River Correctional facility performed grounds keeping duties and other similar tasks at the SCVRD central offices on Boston Avenue, West Columbia, South Carolina. As part of this agreement SCVRD was responsible for providing onsite supervision during the work hours the inmates were at the SCVRD facility.

Interviews conducted of SCVRD senior executives determined SCDC investigators alerted SCVRD in July 2014, of complaints of criminal sexual misconduct between female inmates and a male SCVRD supervisor, all of whom were part of SCVRD work detail. The alleged incidents occurred between December 2013 and June 2014. Upon being alerted to the matter, SCVRD management arranged for the SCDC investigators to interview the SCVRD supervisor at which time he admitted to engaging in sexual misconduct with the female inmates. The SCDC subsequently advised SCVRD senior management of the employee's statement at which time he was promptly terminated from employment with SCVRD.

The former SCVRD supervisor was arrested on 7/29/2014 and charged with three counts of "first degree sexual misconduct with an inmate of a correctional facility" and two counts of "second degree sexual misconduct with inmate of correctional facility." On 4/11/2017, the former SCVRD supervisor entered a guilty plea to one count of second degree assault and battery and was sentenced to one year upon time served, a fine of \$250 with the

balance of the sentence suspended, and one year probation. A review of online public records for the Lexington County General Sessions Court identified this matter as Case #2014A3210600076 (see *Appendix A*).

Based upon the interviews with SCVRD senior management and a review of public records, the SIG determined the SCVRD acted promptly and cooperated with SCDC criminal investigators when the matter was brought to its attention. The length of time which transpired between the initial notification of the complaint (early July 2014), the prompt employment termination of the former SCVRD supervisor and his subsequent arrest on 7/29/2014, was an appropriate length of time. All investigative and prosecutive decisions were conducted under the authority of the Solicitor's office and the SCDC.

Based on this information, the SIG determined the allegation that SCVRD failed to report and mishandled a complaint of sexual misconduct between an SCVRD supervisor and an SCDC inmate is unfounded.

IV. South Carolina Vocational Rehabilitation Program

The SCVRD serves citizens having a physical or mental impairment that substantially impedes employment. Per the SC Code of Laws, Title 43, Chapter 31, SCVRD is statutorily required to provide services to qualifying disabled individuals throughout the State (See link: <http://www.scstatehouse.gov/code/t43c031.php>). The SCVRD is governed by a Board of Commissioners (Board) which appoints a chief executive (Commissioner) to lead the agency.

Services are provided through arrangements with the federal government and other departments, agencies and institutions in accordance with regulations of the Rehabilitation Act of 1973, 34 CFR Part 361 (See link: <https://www2.ed.gov/policy/speced/leg/rehab/rehabilitation-act-of-1973-amended-by-wioa.pdf>). Services are individually designed to assist clients in obtaining, retaining, or regaining employment. The SCVRD operates with an annual budget of \$144 million, and delivers its services through its 1,200 employees assigned to 31 local offices, one evaluation center, one substance abuse treatment facility, and its central office in West Columbia, South Carolina.

A. Work Training Centers

Connected to 26 of the local SCVRD offices are work training centers (WTCs), which provide job readiness training for SCVRD clients with disabilities who need additional exposure in an actual work environment in order to learn essential job skills prior to moving into competitive employment. The typical timeframe for a client to work in the WTC is from three to nine months, or as long as progress is being made toward employability. The WTCs not only provide job skills training for clients, but also provide an outsourcing alternative to businesses for the performance of services such as: assembling, bundling, collating, folding, inspecting, mailing, packaging, painting, salvaging, sawing, shredding, sorting and just about any other similar task required by the business.

B. Community Rehabilitation Program

In 2001, a change to the rehabilitation services law resulted in the cessation of extended employment within the vocational rehabilitation (VR) program, and placed emphasis on directing clients into integrated work settings (See link: <https://www2.ed.gov/policy/speced/guid/rsa/tac-06-01.pdf>). To accomplish this, individual state VR programs focused on the use of community rehabilitation programs. The Community Rehabilitation Program (CRP), codified under Title 29, United States Code, Chapter 16, §705(4), is defined as "...a program that provides directly or facilitates the provision of vocational rehabilitation services to individuals with disabilities..." (See link: <http://uscode.house.gov/view.xhtml?path=/prelim@title29/chapter16&edition=prelim>)”

The Rehabilitation Services Administration (RSA) liaison for South Carolina advised that federal regulations allowed individual states creativity in achieving its measures; and therefore, there was no “cookie-cutter” approach on how each state administered its VR program. Most states partnered with existing CRPs which were external to their VR agency. These CRPs were non-profit agencies and maintained their own mission, staff, programs and governing Boards, and hired employees through services purchased by the state agencies. South Carolina, Mississippi and Massachusetts are the only states that created an internal CRP which was allowed under the CRP law. Generally, clients hired through the CRP were considered to have achieved a successful employment outcome – a “26” case closure for SCVRD – which could not be done for a client simply working at a WTC.

V. SCVRD and ALLIED Opportunities, Inc. (ALLIED) Relationship

A. Creation of ALLIED

During the 2004-05 fiscal year (FY), SCVRD became aware of Mississippi’s CRP model (See link: [AbilityWorks, Inc.](#)) which potentially met the needs of SCVRD under the revised rehabilitation services law. This CRP model was a network of community rehabilitation programs that provided vocational assessment, job training, and actual work experience for individuals with disabilities through a wide array of contract and subcontract services provided to local businesses and industry. Since SCVRD already utilized its WTCs for rudimentary contract services, the creation of its own CRP provided SCVRD the opportunity to enter into more complex and longer term contracts with its external business partners and meet the requirements of the revised RSA law.

In 2005, the SCVRD Board approved the creation of its own CRP, ALLIED Opportunities, Inc. (ALLIED). ALLIED was registered in South Carolina as a non-profit in June 2005 at the direction of the SCVRD Commissioner (*see Appendix B*). ALLIED’s stated purpose was to be “...a non-profit, public benefit corporation designed to provide education, employment, training, and rehabilitation opportunities for people of all ages, abilities and walks of life with a focus on providing these services and opportunities for persons with disabilities... The organization will seek out contracts from private industry, government organizations, and educational institutions (*see Appendix D*).”

In June 2006, the Internal Revenue Service approved ALLIED’s application for tax exempt status as a 501(c)(3) organization (*see Appendix B*). The SCVRD Board received regular progress reports on ALLIED’s growth and performance during its initial years of operation. However, a review of SCVRD Board minutes reflected no other updates were provided to the SCVRD Board following the June 2008 meeting (*see Appendix C*).

B. ALLIED’s Governance Structure

During its initial years, ALLIED was essentially an internal program to SCVRD and was staffed by SCVRD employees with the added responsibility of overseeing ALLIED’s start-up operations. No additional compensation was paid to these employees for their efforts in setting up ALLIED operations. Available ALLIED records for the period of June 2005 through September 2016 indicated ALLIED’s Board and officer positions were held by former or current SCVRD employees, with three to four serving at one time and taking turns in rotating on and off the ALLIED Board (*see Appendix D*). RSA regulations did not prohibit employees of a state agency from governing a CRP even though the use of SCVRD employees on the ALLIED Board was an unusual setup.

C. Statewide Vendor Contract

Interviews conducted of senior SCVRD officials indicated SCVRD could not make direct payments to ALLIED without an established vendor relationship. As a result, SCVRD had three options whereby it could establish this vendor relationship:

- Conduct a sole source procurement;
- Create a Request for Proposal in which the contract would be awarded to the best offeror; or
- Have ALLIED listed as a vendor on statewide contract and select ALLIED to provide the services.

Available SCVRD records from 2009 identified the decision was made to place ALLIED on a sole source contract with the stated purpose of "...to procure labor from a targeted group of former Vocational Rehabilitation clients who can work, but are unable to maintain competitive employment (*see Appendix E*)."

In 2011, ALLIED was placed on the statewide contract through the Materials Management Office (MMO) to provide temporary personnel staffing services (*see Appendix E*). The statewide contract period ran from 07/01/2011 through 06/30/2015, and was renewed for a second period from 7/01/2015 through 06/30/2020. As a statewide contract vendor, ALLIED was available to provide specified staffing services to any requesting "Using Governmental Unit (UGU) including all State agencies and local public procurement units within the geographic limits of South Carolina." A review of ALLIED records indicated SCVRD was ALLIED's largest and primary customer.

Stipulations within the statewide contract allowed ALLIED the ability to mark up pay rates for its positions to cover Worker's Compensation Insurance, unemployment taxes and Social Security/Medicare taxes by 32%, which was less than the allowable 40% for white collar and 45% for blue collar positions. Available temporary staffing positions were limited to those listed on the contract (see the following table), as additional positions could only be added or changed by the MMO. All other positions were to be secured through the requesting agency's procurement department and in accordance with procurement guidelines and regulations.

Temporary Personnel Staffing Positions		
Receptionist	Records Management	Bank Reconciliation Clerk
Clerical Specialist	Desktop – Publishing Specialist	Fiscal Analyst I
Administrative Specialist I	Data Entry Operator I	Docent
Administrative Specialist II	Data Entry Operator II	Blue Collar Positions
Administrative Assistant	Cashier	Driver
Spreadsheet Specialist	Accounting Clerk I	Casual Labor (Light)
Legal Secretary	Fiscal Technician I	Casual Labor (Heavy)
Paralegal	Fiscal Technician II	Custodial Services/ Labor

D. SCVRD and ALLIED Memorandum of Understanding

On 8/13/2012, SCVRD and ALLIED entered into a five-year Memorandum of Understanding (MOU) agreement (effective 7/1/2012), which called for ALLIED to support staffing services in all SCVRD WTCs, and a framework in which SCVRD would provide services to non-SCVRD clients, such as vocational assessment for veterans (*see Appendix F*).

Under the agreement, ALLIED was required to provide the next step in the rehabilitation process to many SCVRD clients, provide employee placement services, and fill employment positions for SCVRD business

contracts. The MOU also permitted ALLIED to partner with other organizations for similar employment services as stated in its By-laws.

E. SCVRD Payments to ALLIED

Beginning in FY 2005-06, ALLIED’s first year of operation, SCVRD provided ALLIED financial support for start-up operations which was gradually reduced by 20% over a five-year period until it was a self-supported organization.

Reviews were conducted of SCVRD vendor payments reported for the period of FY 2007-08 through FY 2016-17 on the State Comptroller General’s agency transparency website, and of ALLIED’s general ledger for the similar time periods. Financial figures for ALLIED’s earlier years (FY 2005-06 and FY 2006-07) were unavailable. The following table illustrates the annual amounts of vendor payments made to ALLIED by SCVRD which totaled \$8,275,430 (see Appendix G).

SCVRD PAYMENTS TO ALLIED



The figures show a general increase in SCVRD’s contractual payments to ALLIED beginning in FY 2010-11. These payments indicated an increase in SCVRD’s use of ALLIED for its temporary personnel services on its long-term business service contracts, as well as its decline following FY 2015-16.

A sample of SCVRD invoices identified payments to ALLIED were for services such as temporary personnel (ex. WTCs, groundskeepers, and custodial), monthly storage in non-state owned rental property and ALLIED office personnel. According to ALLIED’s program manager, approximately 80% of the payroll expenses for its program manager and administrative assistant positions were invoiced to SCVRD due to the fact 80% of their workload was attributed to SCVRD business. Payroll expenses for all other ALLIED employees and staff were invoiced at an established hourly rate.

Vendor payments made by SCVRD to ALLIED were in conformance with ALLIED’s status as a statewide contract vendor. Even though SCVRD was ALLIED’s largest contractor for temporary staffing services it also received payments from other governmental entities; specifically, the United States Attorney’s Office for the District of South Carolina, and the Department of Veteran’s Affairs.

VI. ALLIED Employee Staffing

A. Permanent Staffing

Staffing of ALLIED employment positions moved from SCVRD employees performing collateral duties at ALLIED's inception in 2005, to the employment of nine permanent employees over the time period of 2012 to 2017. ALLIED had moved from being internally operated by SCVRD to a self-sustained organization by hiring operational staff to run its three programs: employment programs, loan programs, and Veteran's programs. These nine positions were comprised of the following backgrounds and associated VR experience: (a) three SCVRD retirees, two of whom were former assistant commissioners who managed ALLIED operations and the Veteran's Program, and one former SCVRD commissioner who was employed as a consultant to SCVRD senior executive leadership; (b) four previous SCVRD clients; and (c) two individuals with no prior SCVRD affiliation who were directed by ALLIED management.

B. Temporary Personnel

In accordance with its stated purpose and staffing contract, ALLIED placed SCVRD clients into temporary positions at SCVRD WTCs and other agencies and businesses, such as the U.S. Attorney's Office and at Fort Jackson. Minutes from a 2012 ALLIED Board meeting indicated ALLIED had 50 temporary personnel placed in a variety of locations. However, by 2017, an internal ALLIED program report indicated ALLIED's temporary staffing had declined to 30 employees due to termination of temporary assignments, temporary employees obtaining permanent employment elsewhere, and the expiration of business contracts not renewed by SCVRD or other agencies and businesses.

Twenty-two of the 30 ALLIED employees were employed at SCVRD WTCs, seven others as SCVRD groundskeepers and janitorial staff, and one with Wil Lou Gray. Two of the seven groundskeepers operated in a managerial capacity. One such manager was a former SCVRD groundskeeper and transitioned from SCVRD employment to ALLIED employment, and performed the same work at SCVRD but in a managerial role at ALLIED. The second manager performed similar supervision of groundskeepers, had a familial relationship to a current SCVRD assistant commissioner, and was already retired from a prior occupation. Neither manager was a former SCVRD client. These two positions neither fit within the statewide contract framework model of the ALLIED temporary staffing positions, nor were they in line with ALLIED's stated purpose. However, all other groundskeepers were former SCVRD clients.

In another instance, SCVRD needed guidance with its WTCs and businesses in making the transition to SCEIS and chose to hire a consultant through ALLIED. This individual was neither a former client of SCVRD nor an employee of ALLIED. As such, ALLIED was not responsible for paying Worker's Compensation nor unemployment insurance for the consultant and only marked up the cost by approximately five percent. In contrast, to have procured for this consultant's services through the Information Technology Management Office (ITMO) would have cost an approximate \$50 - \$150 additional per hour for his services. ALLIED's only responsibilities were to complete his 1099s and process his paychecks. Once again, this position did not fit within the MOU nor the statewide contract.

C. SCVRD Contract Employment of Former SCVRD Commissioners

It was a common practice for SCVRD to employ newly retired SCVRD commissioners as a "special contract" employee or consultant to assist the newly hired commissioner in a transitional role. A review of agency personnel records identified three former SCVRD commissioners continued employment with SCVRD in this manner for a brief period. Contracts and letters on file with SCVRD included specific duties to be performed,

terms of employment, place and hours of employment, compensation, termination, and conditions. In each instance, the requisite forms displayed the required signatures of the former commissioner, newly-appointed commissioner, and SCVRD Board chairperson.

However, a review of ALLIED personnel records identified a retired SCVRD commissioner was hired in 2016 as a consultant to the incoming SCVRD commissioner on a part-time basis. Based on a 20-hour work week at \$75 per hour, the 32% markup permitted under the MOU resulted in a \$99 per hour rate of pay which was invoiced to SCVRD. This resulted in an average monthly payment of \$7,920 to ALLIED by SCVRD for this senior executive consultant service. In contrast to the SCVRD records for prior commissioner consultant contracts, no contract paperwork was located in ALLIED personnel records. A review of ALLIED payroll and SCVRD accounts payable records failed to identify supporting documentation for services performed by the former SCVRD commissioner for a period of eight months. During this eight month period, automatic timesheets for the former commissioner were generated as supporting documentation for ALLIED's invoices to SCVRD. This process prohibited the former commissioner from certifying to the accuracy of the recorded time. More importantly, the employment of a former SCVRD commissioner as a consultant to the succeeding commissioner was unsupported by the terms of the statewide contract for ALLIED's temporary staffing positions.

D. Termination of the SCVRD and ALLIED MOU

A review was conducted of the MOU by SCVRD executives and the SCVRD Board chairperson for the period of December 2016 – January 2017 to determine the performance of ALLIED and the benefit to SCVRD programs. By letter dated 1/25/2017, the SCVRD commissioner notified ALLIED of the termination of the joint agreement with an effective date of 4/25/2017 (*see Appendix H*). This five-year agreement was set to expire in July 2017. As a result, ALLIED's predominant source of income was lost which resulted in the termination of ALLIED employees. SCVRD subsequently offered part-time employment to 26 of the 28 ALLIED employees who were former SCVRD clients.

VII. Conclusion

The creation of ALLIED as a CRP by SCVRD was consistent with federal regulations and the Rehabilitation Act of 1973. Additionally, ALLIED was incorporated as a non-profit organization consistent with state law and IRS rules. Even though the creation of an internal CRP was unusual for a state VR program, it was not restricted by the federal government. As such, the relationship between SCVRD and ALLIED was permissible under federal law and regulations.

Appropriations paid by SCVRD to ALLIED, consisting of federal funds and program income from WTCs, was approximately, \$8,275,430 over a period of ten fiscal years (2008 – 2017). ALLIED invoiced SCVRD for the staffing services it provided with a 32% markup over the pay rate for each individual placed in employment by ALLIED. This was a permissible overhead charge according to the statewide vendor contract. Additionally, expenses incurred by SCVRD for ALLIED's start-up operations in its first two FYs (2006 – 2007) were estimated to be approximately \$200,000 due to the lack of documentation for that period.

By all accounts an appropriate level of oversight was provided by the SCVRD commissioner and Board during ALLIED's initial years of operation. However, this oversight lessened over the ensuing years when updates to the SCVRD Board on ALLIED's contract performance subsided. While ALLIED's mission and purpose remained consistent in its support to SCVRD and the employment of SCVRD clients, its hiring practices became more focused on being a third-party vendor which SCVRD used to its advantage as a work around to other standard hiring and procurement practices.

While ALLIED's employment of two former SCVRD assistant commissioners with VR experience to provide program management for ALLIED's operations and VA program was permissible, it also hired some individuals outside the scope of the statewide contract and MOU. Two managers were hired to provide grounds keeping oversight, one of whom was the spouse of a current assistant commissioner. In addition, ALLIED extended part-time employment to a former SCVRD commissioner to provide consultant services to the succeeding SCVRD commissioner and utilized ALLIED to contract for IT services. These additional hires and contracting for IT services were neither in conformance with the terms of the statewide contract nor the MOU. The SCVRD did not request approval from MMO or ITMO to engage ALLIED for these services. Additionally, the SIG confirmed that the consultant services of a former SCVRD commissioner employed part-time by ALLIED for the period of January 2016 – December 2016 resulted in SCVRD paying ALLIED on average \$7,920 per month. This was an inappropriate expenditure of SCVRD resources and appropriations.

VIII. Findings and Recommendations

Finding #1: The SCVRD failed to obtain approval from MMO when it requested ALLIED to provide executive transitional consultant services from a former SCVRD commissioner employed by ALLIED and in hiring the grounds keeping managers; and failed to obtain approval from ITMO when it obtained IT services from a contractor which were not allowed under the provisions of the statewide contract.

Recommendation #1: The SCVRD should consider conducting a review of existing agreements and MOUs between SCVRD and other entities to ensure the services received by SCVRD are consistent with the provisions of these agreements.

Finding #2: SCVRD failed to properly manage and document the contract deliverables associated with the consultant services provided by a former SCVRD commissioner employed by ALLIED for a period of eight months. As a result, payments to ALLIED for this service were not properly documented and unsupported.

Recommendation #2: The SCVRD should consider reviewing all contracts and existing vendor agreements for proper documentation of services and deliverables received.

List of Appendices

- A. Record from Public Index Search for Andrew Shane Leaphart – Case numbers 2014A3210600073, 2014A3210600074, 2014A3210600075, 2014A3210600076 and 2014A3210600077;
- B. Certificate of Incorporation and Letter from Internal Revenue Service;
- C. South Carolina Vocational Rehabilitation Department (SCVRD) Board Meeting Minutes, dated 9/27-29/2005, 9/27-29/2006, 3/21/2007, and 6/25/2008;
- D. ALLIED Board Meeting Minutes, dated 12/7/2011 through 4/11/2016;
- E. ALLIED Vendor Contract Agreements with SCVRD;
 - a. Justification for Sole Source Procurement, dated 7/1/2009
 - b. Procurement Services Contract 4400003739
 - c. Procurement Services Contract 4400010853
 - d. Example of Temporary Personnel Staffing Services Contract
- F. SCVRD and ALLIED Memorandum of Understanding, dated 8/13/2012;
- G. Comptroller General SC Spending Transparency, printed 6/7/2017 and 7/28/2017; and
- H. SCVRD Commissioner Contract Termination Letter to ALLIED Program Director, dated 1/25/2017.