Office of the Inspector General

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Supplemental Review of the Greenwood County and Abbeville County First Steps Partnerships

Case# 2022-5666-PI

May 2022

I. Executive Summary

The South Carolina Office of the State Inspector General (SIG) initiated an investigation regarding non-compliance with the corrective action plans entered into by the Greenwood County and Abbeville County First Steps partnerships and the state office of the South Carolina First Steps to School Readiness program (SC First Steps). The current investigation is supplemental to the SIG's September 2021 report titled, "*Review of the Greenwood County and Abbeville County First Steps Partnerships.*"

The SIG's scope and objectives were twofold: (1) assess the appropriateness of sublease buyout payments made to the Social Change Initiative (SCI) with state funds by the Greenwood County First Steps partnership (GCFS) and Abbeville County First Steps partnership (ACFS), and (2) determine whether a procurement for services and subsequent contract between ACFS and Michael K. Gaskin complied with the "Responsibilities of the Partnership" in Section 11.O of the ACFS partnership grant agreement, which required the use of due care in the selection of contractors, including competitive bidding.

Excess Sublease Rental Payments

The SIG's analysis and review of documents determined that SCI entered into a lessor/lessee relationship with Sammie Robinson in fiscal year (FY) 2016 and subsequently subleased its space to GCFS through FY 2021. Gaskin served concurrently as the SCI chief executive officer and GCFS executive director during this period. This sublease arrangement continued in force through annual renewals of the sublease agreement. Furthermore, the ACFS co-located with GCFS in a "rent-free" capacity. Beginning in FY 2020, ACFS entered into a sublease agreement whereby it paid a monthly rent to SCI.

The SIG determined SCI charged more for rent to GCFS and ACFS than required for payment on the primary SCI lease. The SIG determined through interviews that the property owner (Sammie Robinson) was unaware of the excess sublease payments and received none of the extra rental income. As illustrated below in Table A, GCFS and ACFS paid monthly rent to SCI with state funds over a four-year period (FYs 2018 – 2021) that resulted in net rental income of $22,416 to SCI.

Table A

Lease Year Began	Lease Year Ended	Monthly ACFS Rent to SCI	Monthly ACFS Utilities	Monthly GCFS Rent to SCI	Monthly GCFS Utilities	Monthly GCFS Trash Fee*	Monthly SCI Rent to Lessor	Monthly Net to SCI	Annualized Net to SCI
7/1/15	10/31/15			$1,350	100%		$2,000	($650)	($2,600)
11/1/15	6/30/16			$1,650	100%		$2,000	($350)	($2,800)
7/1/16	6/30/17			$1,650	100%		$2,000	($350)	($4,200)
7/1/17	6/30/18	$0	0%	$2,334	100%	$52.50	$1,950	$384	$4,608
7/1/18	6/30/19	$0	0%	$2,334	100%	$52.50	$1,950	$384	$4,608
7/1/19	6/30/20	$1,250	50%	$1,250	50%	$52.50	$1,950	$550	$6,600
7/1/20	6/30/21	$1,250	50%	$1,250	50%	$52.50	$1,950	$550	$6,600
7/1/21	6/30/22	$975	50%	$1,950	50%	$60.67	$1,950		

$22,416

* The trash fee was paid directly by GCFS to the vendor.

Sublease Buyout Payments

A review of the sublease agreements between SCI and GCFS or ACFS determined there was no requirement of an early termination fee or lease buyout provision. Subsequent interviews conducted of Gaskin determined the "lease buyout agreement" was drafted by Gaskin for the purpose of terminating the SCI sublease arrangements with GCFS and ACFS. During his interview with the SIG, Robinson stated he was unaware of any lease buyout payment and received none of the payments made by GCFS and ACFS to SCI. Accounting records maintained by the Manley Garvin accounting firm for the First Steps partnerships identified $8,682.43 in state funds were utilized by GCFS ($4,250) and ACFS ($4,432.43) as sublease buyout payments to SCI. Gaskin confirmed to the SIG the checks were deposited by him into an SCI bank account.

Fatherhood and Parenting Administrator Contract – Procurement Solicitation

Angela Pruitt, ACFS executive director, terminated a services agreement between Gaskin and ACFS as part of its corrective action plan agreement with SC First Steps, effective 12/31/21. In August 2021, the ACFS Board chair appointed a Request for Quotations (RFQ) committee from the ACFS Board membership to recommend a candidate to hire to continue the fatherhood counseling services for ACFS without any break in service when Gaskin's contract ended.

Prior to the committee's first meeting, the committee chair received an email from Pruitt on 8/31/21 containing the RFQ documents, complete with the specified qualifications, which the committee approved on 9/1/21. In her SIG interview, Pruitt stated she knew approximately five persons in the Abbeville and Greenwood area who qualified under the position criteria, including Gaskin. Pruitt claimed she did not know how many years of experience Gaskin had when she composed the qualifications list, however, she later advised the SIG that she used Gaskin's resume as guidance to develop the RFQ.

Conclusion

The SIG investigation determined the sublease buyout payments made by GCFS and ACFS to SCI was an inappropriate use of state funds. Neither sublease agreement between SCI and GCFS or ACFS contained a requirement for the payment of an early termination fee. Furthermore, interviews conducted of Robinson determined (1) Robinson was unaware of the sublease buyout payments and excess rental payments made to SCI by GCFS and ACFS, (2) Robinson suffered no loss when SCI ended its lease on 6/30/21 due to the fact GCFS entered into a direct lease arrangement with Robinson on 7/1/21, and (3) Robinson received none of the buyout payments from SCI which Gaskin retained in his role as SCI chief executive officer (CEO) and later confirmed by Gaskin to the SIG. Furthermore, the SIG determined Gaskin artificially interposed SCI as the lessee in the office space lease at a time when he served concurrently as the SCI CEO and the GCFS executive director.

The SIG investigation determined the GCFS and ACFS Boards were deficient in their respective governance and oversight of the monthly rental payments for FYs 2018 – 2021, as well as the disbursement of state funds for sublease buyout payments that were not required by the sublease agreements.

The SIG investigation determined the ACFS procurement process for the fatherhood and parenting administrator contract was inconsistent with Section 11.O of the partnership's grant agreement with SC First Steps. In addition, the SIG determined Pruitt's conduct as an ACFS officer with discretionary authority over the procurement process was inconsistent with her duties of due care and good faith imposed by law.

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II. Background

A. Predicate

The South Carolina Office of the State Inspector General (SIG) initiated an investigation regarding non-compliance with the corrective action plans entered into by the Greenwood County and Abbeville County First Steps partnerships and the state office of the South Carolina First Steps to School Readiness program (SC First Steps). The current investigation is supplemental to the SIG's September 2021 report titled, "*Review of the Greenwood County and Abbeville County First Steps Partnerships.*"

B. Scope and Objectives

The SIG's scope and objectives were to:

- Assess the appropriateness of lease buyout payments made to the Social Change Initiative with state funds by the Greenwood County First Steps partnership (GCFS) and Abbeville County First Steps partnership (ACFS); and
- Determine whether a procurement for services and subsequent contract between ACFS and Michael K. Gaskin complied with the "Responsibilities of the Partnership" in Section 11.O of the ACFS partnership grant agreement, which required the use of due care in the selection of contractors, including competitive bidding.

Per SC Code of Laws, §1-6-20(A), the SIG is responsible for investigating and addressing allegations of fraud, waste, abuse, mismanagement, violations of state or federal law, and wrongdoing in agencies. The SC First Steps is an agency within the meaning of the statute.

C. Methodology

The SIG reviewed relevant documentation provided by SC First Steps and reviewed documents from the GCFS, the ACFS, and the regional finance manager, Manley Garvin. The SIG conducted interviews of Board of Directors (Board) members for both partnerships, employees, and contractors of GCFS and ACFS, as well as employees of SC First Steps.

Reviews and investigations by the SIG are conducted in accordance with professional standards set forth by the Association of Inspectors General's *Principles and Standards for Offices of Inspector General*, often referred to as the "Green Book." This investigation used the preponderance of evidence standard.

D. The South Carolina First Steps to School Readiness

The SC First Steps is a state agency and nonprofit corporation that provides services and prepares children for school from the prenatal stage to entry into five-year-old kindergarten. The stated mission of SC First Steps is to "work collaboratively to ensure that all children start school ready to reach their highest potential with engaged support from their parents, caregivers, and communities," as outlined in its 2020-2025 Strategic Plan.

Pursuant to SC Code of Laws Title 59, Chapter 152 the SC First Steps office acts as the primary funding entity for the state's 46 local partnerships. The SC First Steps also provides support, including training and technical assistance, as well as monitoring the local partnerships.

The SC First Steps procured Manley Garvin, LLC, an accounting, tax, and consulting firm to provide the accounting services to all SC First Steps local partnerships. As the regional finance manager, Manley Garvin is responsible for ensuring that SC First Steps is kept aware of any financial issues identified through reviews of standardized reports, invoices, partnership Board minutes, or meetings with Board representatives from local partnerships. The SC First Steps contract period with Manley Garvin is 7/1/17 - 6/30/22.

The GCFS and ACFS offices are county-based nonprofit corporations that receive and utilize state, federal, and private funds to support programs to improve school readiness outcomes for children. In 2011, the two partnerships co-located their offices in shared office space at one facility in Greenwood County to reduce rent and utility costs for both partnerships. As with each local partnership, GCFS and ACFS operated as independent nonprofit corporations, each with a local Board and staff. Per SC Code of Laws §59-152-60(A), each county in South Carolina must be represented by a First Steps local partnership Board.

Michael K. Gaskin became the GCFS executive director in 2001, a role in which he exercised discretionary authority over GCFS operations. In 2011, Gaskin founded the nonprofit, Social Change Initiative (SCI), a §501(c)(3) educational organization. Gaskin is the SCI's chief executive officer (CEO) and previously held a dual-employment contract with ACFS as a fatherhood and parenting workshop administrator between 2008 and 2021.

Angela Pruitt became the ACFS executive director in 2001, a role in which she exercised discretionary authority over ACFS operations. Pruitt served as a program director for SCI between 2012 and 2014 and as SCI's chief financial officer between 2016 and 2019.

E. Applicable Law – Standards of Conduct

The SC Code of Laws §33-31-842(a) provides that a nonprofit corporation officer with discretionary authority must discharge his duties: (1) in good faith, (2) with the care an ordinarily prudent person in a like position would exercise under similar circumstances, and (3) in a manner the officer reasonably believes to be in the best interests of the corporation and its members.

Likewise, the SC Code of Laws §33-31-830(a) provides that a nonprofit corporation director, including his duties as a member of a committee, must discharge his duties: (1) in good faith, (2) with the care an ordinarily prudent person in a like position would exercise under similar circumstances, and (3) in a manner the officer reasonably believes to be in the best interests of the corporation and its members.

The duty of good faith is generally interpreted as the duty to conduct business with a focus on the best interests of the corporation.[1] The duty of care is generally interpreted as requiring board members to be more than mere passive recipients of corporate information, using a reasonableness standard focused on process.[2] However, a director may rely on information, opinions, reports, or statements prepared by officers of the corporation who the director reasonably believes is reliable and competent.[3] In addition, a director will not be personally liable for monetary damages except for, inter alia, acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law.[4] Finally, the duty of loyalty focuses on motives, purposes, and goals and forbids self-dealing or interested transactions.[5] The duty of loyalty also prohibits the use of one's position

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[1] See *In re The Walt Disney Co. Derivative Litigation*, 906 A2d 27 (Del. 2006), citing *Aronson v. Lewis*, 473 A.2d 805, 812 (Del. Supr. 1984). See also *Couri v. Couri*, 95 Ill. 2d 91, 98 (1983).

[2] See Kelley III, Thomas A., *North Carolina Charter Schools' (Non-?) Compliance with State and Federal Nonprofit Law*, 93 N.C. L. Review 1757 (2015), pp. 1773-1775

[3] South Carolina Code of Laws §33-31-830(3)(b)(1).

[4] South Carolina Code of Laws §33-31-202(b).

[5] *Id.*, p. 1775. See also *Guth v. Loft*, 5 A.2d 503, 510 (Del. 1939) and *In re The Walt Disney Co. Derivative Litigation*, 906 A2d 27 (Del. 2006).

to arrange or approve an unwarranted expenditure of the organization's assets, which would constitute corporate waste.[6]

III. Investigation and Analysis

A. Corrective Action Plans

During the course of the SIG's 2021 review, the SC First Steps notified GCFS and ACFS representatives that both partnerships were required to submit separate corrective action plans (CAP) to address and correct identified deficiencies, pursuant to the partnership grant agreement. The GCFS and ACFS partnerships executed the CAPs on 7/28/21 and 8/13/21, respectively. The CAP provided a mechanism to track progress of compliance in identified areas to meet the grant qualifications legislatively required for local partnerships receiving a state grant. The CAP for each partnership included nine deficiencies that required redress in order to comply with the grant agreement. The following three items were specific to this review.

The GCFS CAP, executed on 7/28/21, stated in part on page 2:

- "The Local Partnership will end the lease agreement that includes Social Change Initiative by June 30, 2021 and end the lease agreement with ACFS by June 30, 2022."
- "Per ACFS, the contract agreement with Michael Gaskin for parent group meetings and program administration will be ended by October 15, 2021."
- "The Local Partnership will discontinue shared facility costs with Abbeville County First Steps by June 30, 2022."

The ACFS CAP, executed on 8/13/21, stated in part on page 2:

- "The Local Partnership will end the lease agreement that includes Social Change Initiative by July 1, 2022."
- "The Local Partnership will end the contract agreement with Michael Gaskin for parent group meetings and program administration by October 15, 2021."
- "The Local Partnership will discontinue shared facility costs with Greenwood County First Steps by June 30, 2022."

In a 7/19/21 email, the ACFS counsel requested that SC First Steps extend the deadline for ACFS to end the contract agreement with Gaskin until 12/31/21. The SC First Steps approved the extension via email, dated 7/21/21.

B. Lease and Sublease Agreements – SCI, GCFS and ACFS

On 5/4/15, SCI entered into a two-year lease agreement with Town and County, the managing agent for property owner Sammie Robinson, for office space at 1402-C, Highway 72W, Greenwood, SC ("1402-C"). Robinson stated to the SIG that he owns multiple properties for commercial leases, including another business in the same building as the 1402-C office space. The lease did not provide for the subleasing of the space without the written permission of the lessor. Regardless, SCI subleased the space to GCFS on 6/1/15 under the SCI Board and GCFS Board chairs' authorities.[7]

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[6] *Id.*

[7] The SCI and GCFS Board chairs amended the sublease agreement on 11/1/15 and 12/30/15 to reflect an increase in rent and utility payments, respectively; and renewed the agreement on 7/1/16.

Beginning in fiscal year (FY) 2018, SCI leased the 1402-C office space directly from Robinson. This new lease and all subsequent leases permitted SCI to sublease its office space. This lessor/lessee/sublessee relationship continued through FY 2021.

In June 2015, ACFS was already co-located with GCFS at the 1402-C office space in a "rent-free" capacity. Beginning in FY 2018, ACFS entered into a sublease agreement with SCI whereby ACFS paid a portion of the utility and general maintenance (janitorial, postage, internet usage fees, etc.) costs. This sublease agreement continued through FY 2019. In FYs 2020 and 2021, the sublease agreement between ACFS and SCI expanded to include the payment of rent.

1. Term Period and Early Termination Clause

Each GCFS sublease agreement with SCI for FYs 2016 – 2021 contained the same term period and early termination paragraph (#4) that stated:

> *4) Term: The initial term of this Agreement shall be from [insert date] to [insert date]. This Agreement shall automatically renew for five (5) successive terms of one (1) year each unless earlier terminated under the provisions below.*

The SIG review determined the sublease agreement was re-executed each year with a new term period and the same statement regarding early termination with certain provisions. However, the SIG did not identify the provisions referenced to the *"unless earlier terminated"* statement of the sublease agreement. Furthermore, the SIG review did not identify any penalty provision within each sublease agreement for its early termination.

Similarly, each ACFS sublease agreement with SCI for FYs 2018 – 2021 contained the same clause as the GCFS subleases related to term periods and early termination. As with the GCFS subleases, ACFS re-executed each sublease with a new term period each year and did not contain any penalty provision for the early termination of the sublease agreement.

In contrast, the lease agreements between SCI and Robinson for FYs 2016 – 2021 contained a provision (#11) that provided for the surrender of a $2,000 deposit for early termination of the lease without a 30-day notice.

2. Subsequent Lease and Sublease Agreements

Gaskin, as the GCFS executive director, executed a lease agreement on 7/8/21 with Robinson for the 1402-C office space, retroactive to 7/1/21, for $1,950 per month and a monthly $60.67 trash disposal fee for a period of one year.

ACFS executed a sublease agreement on 7/23/21 with GCFS for the 1402-C office space, effective 7/1/21, for one year for $975 per month and 50% of utilities and trash costs while ACFS searched for a permanent place to relocate. ACFS relocated to Abbeville effective on or about 12/7/21.

C. Analysis of Rental Payments Received by SCI

As previously reported in the SIG's *Review of the Greenwood County and Abbeville County First Steps Partnerships*, Gaskin's dual role as the SCI CEO and the GCFS executive director:

> *"…blurred the lines of oversight and decision-making, which the SC First Steps' grant agreement and bylaws specifically prohibited. Gaskin had a financial interest in the success of both groups even though the Boards for GCFS and SCI approved of the arrangement."*

The SIG assessed Gaskin artificially interposed SCI as the lessee in the rental of office space while subleasing the space to GCFS and ACFS. The SIG determined SCI charged more for the combined sublease payments than required for the monthly lease payments under the SCI – Robinson lease. Consequently, SCI realized net rental income from GCFS and ACFS in FYs 2018 – 2021 totaling $22,416, which SCI and, therefore, Gaskin as its CEO, retained.

The SIG determined that Gaskin did not disclose to the GCFS Board the excess sublease payments made to SCI, as well as the ACFS payments made to SCI, which he controlled as the SCI CEO. Robinson advised the SIG he was unaware of the excess rental payments retained by SCI. In this respect, Gaskin's conduct as a GCFS officer with discretionary authority over GCFS funds was inconsistent with his duties of good faith and loyalty imposed by law. In addition, the SIG determined the GCFS and ACFS Boards did not exercise due diligence in seeking transparency from Gaskin to determine the lease payments made by SCI to the property owner, Robinson. The amounts paid and/or received by SCI, GCFS and ACFS under the lease/sublease arrangement are set forth in Table A, below:

Table A

Lease Year Began	Lease Year Ended	Monthly ACFS Rent to SCI	Monthly ACFS Utilities	Monthly GCFS Rent to SCI	Monthly GCFS Utilities	Monthly GCFS Trash Fee*	Monthly SCI Rent to Lessor	Monthly Net to SCI	Annualized Net to SCI	
7/1/15	10/31/15			$1,350	100%		$2,000	($650)	($2,600)	
11/1/15	6/30/16			$1,650	100%		$2,000	($350)	($2,800)	
7/1/16	6/30/17			$1,650	100%		$2,000	($350)	($4,200)	
7/1/17	6/30/18	$0	0%	$2,334	100%	$52.50	$1,950	$384	$4,608	
7/1/18	6/30/19	$0	0%	$2,334	100%	$52.50	$1,950	$384	$4,608	**$22,416**
7/1/19	6/30/20	$1,250	50%	$1,250	50%	$52.50	$1,950	$550	$6,600	
7/1/20	6/30/21	$1,250	50%	$1,250	50%	$52.50	$1,950	$550	$6,600	
7/1/21	6/30/22	$975	50%	$1,950	50%	$60.67	$1,950			

* The trash fee was paid directly by GCFS to the vendor.

D. <u>In-Kind Contributions to GCFS</u>

Robinson provided in-kind contributions totaling $39,070 in FYs 2018 and 2019 to GCFS by performing services, such as maintenance on SCI's space. During this period, Robinson (property owner) was the lessor, SCI was the lessee, and GCFS was SCI's sublessee. Despite the absence of a lessor-lessee relationship between Robinson and GCFS, GCFS claimed a $6,600 in-kind contribution for rent in both FY 2018 and FY 2019.

The SIG assessed other in-kind contributions attributed to Robinson and claimed by GCFS in FYs 2018 and 2019 were typically a lessor's responsibility and not appropriate for an in-kind contribution to a lessee and, by even greater logic, to a sublessee. In-kind contributions for the two-year period are depicted in Table B, below:

Table B

Fiscal Year	In-Kind Contributions Claimed	Amount
2018	Roof re-sealed due to leakage	$2,165
2018	Routine pest control, termite inspection and treatment	$1,450
2018	Heating and cooling (replaced thermostats, and replaced	$3,175
2018	Painted building interior	$1,200
2018	Landscaping (trees, parking lot, and drainage system)	$3,300
2018	Cost paid to management company (not used)	$1,860

2018	Adjust renting cost $550 per month (not used)	$6,600
2019	Termite inspection and treatments	$878
2019	Heating and cooling (repair thermostats and replace	$3,869
2019	Landscaping	$1,895
2019	Adjust renting cost $550 per month (not used)	$6,600
2019	Drainage repair (labor and materials costs)	$1,885
2019	Additional storage space usage (430 sq. ft. x $9.75)	$4,193
	TOTAL	$39,070

The SIG notes that in-kind contributions were credited for roof re-sealing in both FY 2018 and FY 2019. In addition, in FY 2018, thermostats were replaced, and the thermostats were repaired in FY 2019. The SIG also notes that "all three" heating and air conditioning units were serviced in FY 2018, suggesting that in-kind contributions were credited for work that benefitted another tenant or tenants of the building.

SC First Steps disallowed in-kind contributions for roof re-sealing, pest control services, and landscaping totaling $3,087 in FY 2020. The SIG assessed that all but the FY 2018 interior painting contribution of $1,200 and the FY 2019 additional storage space contribution of $4,193 were lessor expenses and should not have been eligible for in-kind contribution matches. As a result, the SIG assessed that $33,677 should have been disallowed for GCFS's use in meeting its 15% in-kind match requirement. SC First Steps concurred with the SIG that the FYs 2018 and 2019 in-kind contributions should have been disallowed.

Based on interviews and documents, the SIG further assessed that Robinson saw no distinction between Gaskin, SCI, and GCFS, which reinforced the assessment that SCI's role as a lessee was an artifice to collect public funds from GCFS and ACFS for Gaskin's personal use.

E. Analysis of Sublease Buyout Payments – GCFS and ACFS

1. GCFS Sublease Buyout Agreement

As early as 4/1/21, SC First Steps, GCFS and ACFS leaders exchanged a series of responses to deficiencies identified by SC First Steps regarding GCFS and ACFS operations. Among the responses contained in a 5/4/21 joint GCFS-ACFS reply to SC First Steps was a statement that the leasehold relationship between GCFS, ACFS and SCI would be terminated effective 7/1/21. In addition, Gaskin, as the SCI CEO, had notice by virtue of the joint reply as the GCFS executive director more than a month prior to the termination date of the sublease agreement with SCI.

GCFS, separate from ACFS, submitted responses on 5/26/21 to SC First Steps that stated, "*Effective 30 June 2021, GCFS and ACFS will buyout of the lease with the SCI, and GCFS will have the building rental/lease placed in its County Partnership's name only.*" On 6/15/21, SC First Steps addressed the GCFS lease buyout plan, as noted in item #1:

> *"For clarification, SC First Steps is unaware of any required buyout provisions in the lease MOAs that have been submitted. If this agreement, through conflicts of interest, does not meet the standards for the use of state funds, any buyout provisions might also be unallowed. Please provide documentation showing that this would be an allowed expense. It appears that new lease agreements will need to be developed for the 2021-22 fiscal year. Please submit those documents to SC First Steps for review prior to submitting them for payment."*

SC First Steps advised no documents were submitted by GCFS justifying the lease buyout expense. In a subsequent interview with the SIG, Gaskin did not identify any lease provision that required GCFS to pay SCI a termination fee. Gaskin advised the SIG that he drafted the sublease buyout agreement between SCI and GCFS.

According to the GCFS 6/7/21 Board minutes, the GCFS Board approved the use of $4,250 in Paycheck Protection Program (PPP) funds to pay off the rent/lease with SCI. As authorized by Section 1106 of the CARES Act, GCFS submitted a request to the Small Business Administration for a forgivable loan that was approved on 4/10/21 for $30,800. The GCFS received the PPP loan proceeds on 4/10/21 for the covered period of 5/1/21 through 9/21/21.

Manley Garvin notified Gaskin by email dated 4/23/21 that, "*you received a PPP loan for $30,800 in your account on April 15th. To begin spending from this, you'll need to submit a reallocation to add budget to fund 73 which is the designated fund for PPP*."

Manley Garvin advised the SIG that GCFS did not set up an account to budget PPP expenses until after FY 2021 ended. Gaskin provided Manley Garvin a journal entry dated 9/16/21 to account for the $30,800 in PPP funds in September, which were retroactively applied to salaries ($23,000), office rent ($6,040) and payroll taxes ($1,760) expenses for FY 2021. There were no remaining PPP funds available to pay the sublease buyout fee.

On 8/5/21, Manley Garvin issued GCFS check #2250 for $4,250 from GCFS state funds due to the prior depletion of GCFS' PPP funds. As such, the sublease buyout payment was recorded in FY 2022 budgeted expenses. During his SIG interview, Gaskin advised the GCFS check was deposited on 8/6/21 into an SCI bank account. SCI bank records provided by Gaskin confirmed the GCFS check was deposited 8/6/21 into the SCI account.

The GCFS 6/7/21 Board minutes reflected, without attribution,

> *"The building lease agreement with SCI will be terminated as of 7/1/21 due to SC First Steps requiring GCFS to end the relationship with SCI. GCFS will have to pay a termination of lease fee. The fee amount is $4,250 (3 months' rent and utilities)."*

The SIG determined that despite (1) the absence of a provision requiring a lease buyout and (2) the SC First Steps warned a lease buyout agreement may be disallowed, GCFS made a payment to SCI on 8/5/21 for $4,250 using state funds for a sublease buyout payment. The SIG identified no record where the GCFS Board approved the use of state funds for the payment. By letter dated 3/18/22, the GCFS Board chair advised that the Board did not approve use of state funds, and it understood PPP funds were used.

2. ACFS Sublease Buyout Agreement

Pruitt, the ACFS executive director, advised that she believed that a sublease buyout was required because "*We felt we would be kicked out*," but she was unable to identify who communicated to her that ACFS would be evicted. Later, Pruitt advised the SIG that Gaskin said, "There is a possibility SCI would kick you out" and otherwise suggested that ACFS would be evicted. Pruitt did not identify to the SIG any lease provision that required ACFS to pay SCI a lease termination fee. Gaskin advised the SIG that he drafted the lease buyout agreement between SCI and ACFS.

The ACFS Board chair advised it was his understanding from Pruitt that a lease buyout was necessary to prevent eviction and make Robinson whole, so the Board authorized a payment to Robinson, the property owner and lessor. He was also told by Pruitt the payment would be drawn from federal PPP funds, rather than from state funds.

According to the ACFS 6/3/21 Board minutes, the ACFS Board approved the use of $4,250 in PPP funds to pay off the rent/lease with SCI. As authorized by the CARES Act, ACFS submitted its request for a forgivable loan that was approved on 4/30/21 for $22,400.40. The ACFS received the PPP loan proceeds on 5/6/21 for the covered period of 5/25/21 through 7/25/21.

Manley Garvin advised the SIG that ACFS set up an account to budget PPP expenses in FY 2021. However, on 7/22/21, Manley Garvin issued ACFS check #1924 for $4,432.43 from ACFS state funds due to the prior depletion of ACFS PPP funds. As such, the sublease buyout payment was recorded in FY 2022 budgeted expenses. During his SIG interview, Gaskin advised the check was deposited into an SCI bank account on 7/23/21. SCI bank records provided by Gaskin confirmed the ACFS check was deposited 7/23/21 into the SCI account.

Manley Garvin issued journal entries dated 6/30/21 to re-classify the $22,400 payments from PPP funds to state funds, which were applied to salaries ($17,144), office rent ($4,250) and payroll taxes ($1,006) expenses for FY 2021.

The SIG determined that despite (1) the absence of a lease buyout provision in the sublease, (2) that Robinson (lessor) did not suffer loss, and (3) the SC First Steps warned a lease buyout agreement may be disallowed, ACFS made a payment to SCI on 7/22/21 for $4,432.43 ($4,250 for lease buyout and $182.43 for the May utilities) with state funds. The SIG identified no record where the ACFS Board approved the use of state funds for this payment.

3. Retention of Sublease Buyout Payments – SCI

Contrary to the purposes identified by Pruitt and the ACFS chair, Gaskin stated to the SIG the purpose of the sublease buyout payments to SCI was to enable SCI to move to a new commercial office space. Instead, Gaskin advised that SCI moved to his residence where he was the sole SCI employee.

Gaskin advised he deposited the GCFS and ACFS sublease buyout checks into an SCI account and did not remit the buyout payments to Robinson. Gaskin retained the $4,250 from GCFS and the $4,432.43 from ACFS, totaling $8,682.43, in the SCI account, which he controlled.

The SIG confirmed with Robinson that he had no knowledge of a sublease buyout agreement with SCI or a provision to terminate the lease. Robinson stated he received none of the combined $8,682.43 in sublease buyout fees paid to SCI by GCFS and ACFS. In addition, Robinson confirmed he suffered no loss because of the termination of the lease by SCI.

While the individual sublease agreements with GCFS and ACFS obligated SCI to pay a percentage of the utility costs, only GCFS and ACFS paid the full amount of the utility bills. *(See Table A, page 7)*

The SIG determined (1) the sublease buyout payments were not required under the sublease terms, (2) the GCFS and ACFS Boards and their executive directors (Gaskin and Pruitt) did not exercise proper oversight and fiduciary care in the disbursement of state funds for the sublease buyout payments, (3) SCI wrongfully retained the sublease buyout payments, and (4) the sublease buyout payments made by GCFS and ACFS wasted state funds.

Furthermore, the SIG determined Gaskin's conduct as a GCFS officer with discretionary authority was inconsistent with his duties of good faith, due care, and loyalty set forth in SC Code of Laws, §33-31-842. The SIG determined Pruitt's conduct as an officer of ACFS was inconsistent with her duty of due care imposed by law.

IV. ACFS Procurement Solicitation – Fatherhood and Parenting Administrator

Because of the CAP submitted by ACFS and approved by SC First Steps, ACFS terminated its services agreement with SCI and SCI CEO Gaskin on 12/31/21. In August 2021, the ACFS Board chair appointed a Request for Quotations (RFQ) committee from the ACFS Board membership to recommend a candidate to hire to continue the fatherhood counseling services for ACFS without any break in service when Gaskin's contract ended.

Prior to the committee's first meeting, the committee chair received an email from Pruitt on 8/31/21 containing the RFQ documents, complete with the specified qualifications. The committee met on 9/1/21 and approved the RFQ provided by Pruitt. The committee chair worked from the document provided by Pruitt and, contrary to Pruitt's representation to the SIG, Pruitt was not asked for additional advice about the qualifications. Instead, the committee used Pruitt's 8/31/21 recommendations and published the posting advertisement on 9/1/21, using guidance from the SC First Steps' Operations Manual.

In her SIG interview, Pruitt stated she knew approximately five persons in the Abbeville and Greenwood area who qualified under the position criteria, including Gaskin. Pruitt claimed she did not know how many years of experience Gaskin had when she composed the qualifications list, however, she later advised the SIG that she used Gaskin's resume as guidance to develop the RFQ.

The following qualifications were listed in the RFQ packet sent to applicants, and a side-by-side comparison is set forth below in Table C that includes information from Gaskin's application:

Table C

Criteria	Qualifications	Gaskin
Minimum education	Master's degree	Master's degree
Minimum experience	12 years	12 years
Preferred experience	National Fatherhood Initiative models 24/7 Dad, and Doctor Dad	National Fatherhood Initiative models 24/7 Dad, and Doctor Dad
Compensation	Maximum $27,600	$28,600-negotiable

Pruitt responded to requests for three application packets, of which only two application packets were returned. Only two candidates completed the application process, Gaskin and a person who was deemed unqualified.

Despite the 8/13/21 CAP, which stated the ACFS *"Partnership will end the contract agreement with Michael Gaskin for parent group meetings and program administration by October 15, 2021,"* the contract was awarded to Gaskin for $28,600 by the ACFS Board on 10/6/21. ACFS officials and Gaskin signed the contract on 12/2/21, at a time that the prior contract with SCI was still in effect, though the new contract did not go into effect until 1/1/22.

The three-year contract with Gaskin as the fatherhood and parenting facilitator was effective 1/1/22 through 6/30/25 for $28,600 per fiscal year. The compensation under the previous contract with Gaskin as the fatherhood facilitator was based on an hourly rate of $50 per hour, not to exceed $14,400 quarterly.

In January 2022, SC First Steps learned about the ACFS Board decision to issue a contract to Gaskin as the fatherhood and parenting administrator. On 1/19/22, SC First Steps communicated to the ACFS of its violation of the CAP and the grant agreement and needed to terminate the contract. By letter dated 2/9/22 , the ACFS Board terminated the contract effective 12/31/21 before any payments were made. By letter dated 2/16/22, the ACFS Board chair notified Gaskin that the contract was terminated.

Pruitt advised the SIG that she and the ACFS Board interpreted the SC First Steps objection to ACFS contracting with SCI as a prohibition concerning dual fringe benefits paid to Gaskin, but that the CAP did not bar a services contract with Gaskin. The ACFS counsel advised the SIG that it was his opinion that a procurement for services with Gaskin as the fatherhood and parenting facilitator was permissible, but ACFS counsel was not contacted by ACFS for an opinion prior to the solicitation of the RFQ. The ACFS counsel stated he was only consulted by ACFS with respect to correspondence regarding the revocation of the contract in February 2022.

The SIG assessed the qualifications narrowed the pool of candidates in at least two respects. First, the minimum of twelve years of experience narrowed the likely field of potential candidates to about five persons, according to Pruitt's estimate. Second, ACFS listed the position's maximum compensation in the RFQ as $27,600, which was later increased by $1,000 in the contract awarded to Gaskin, which coincided with Gaskin's requested salary, eliminating anyone who believed the maximum compensation was too low.

The SIG further assessed the specified qualifications mirrored Gaskin's experience, and the explanations provided by Pruitt were not truthful. Notably, the RFQ committee chair, and documentary evidence contradicted Pruitt's statements. The SIG determined the procurement was tailored to justify the contract being awarded to Gaskin and was not competitively bid.

The outcome was mitigated, however, in that ACFS terminated Gaskin's contract when notified by SC First Steps, and no state funds were expended under the contract. The SIG determined Pruitt's conduct as an ACFS officer was inconsistent with her duties of due care and good faith imposed by law.

V. Other Observations and Concerns

Contrary to the SC First Steps' Operations Manual Chapter 10-C "Invoice Payment," Pruitt personally prepared an invoice to justify the sublease buyout payment to SCI. ACFS never received an invoice from SCI related to the lease buyout. Instead, the invoice was supported by a "Lease Buyout Agreement" executed by ACFS Board.

On 7/1/21, Pruitt and the ACFS Chair affirmed in the "Lease Buyout Agreement" the partnership Board "*approved the buyout of this lease agreement to avoid having to reallocate their entities*." The agreement also stated, "*Either party, SCI, GCFS, and/or ACFS, finds this agreement to be negotiated <u>without</u> [sic, SIG emphasis] full understanding from each entity*." Rather than a lack of due care in evaluation of the agreement drafted by Gaskin, this statement evidenced a lack of due care in reviewing the document by the ACFS Board.

Robinson confirmed a $2,000 security deposit was paid by SCI in 2015 to Town & Country (Robinson's leasing agent) for the 1402-C office space according to the terms of the lease. Robinson stated to the SIG that when SCI ended its lease on 6/30/21, he retained and transferred the $2,000 as the security deposit for the new GCFS lease that began on 7/1/21 for the 1402-C office space. The SIG confirmed with Manley Garvin that GCFS did not pay any money for a security deposit under its lease with Robinson. The SIG assessed Robinson's retention of the security deposit for the benefit of GCFS affirmed Robinson's perception that Gaskin, SCI, and GCFS were a single entity.

VI. Conclusion

The SIG review determined the sublease buyout payments made by GCFS and ACFS to SCI was an inappropriate use of state funds. Neither sublease agreement between SCI and GCFS or ACFS contained a requirement for the payment of an early termination fee. Furthermore, interviews conducted of Robinson determined that:

- Robinson was unaware of the sublease buyout payments and excess rental payments made to SCI by GCFS and ACFS;
- Robinson suffered no loss when SCI ended its lease on 6/30/21 due to the fact GCFS entered into a direct lease arrangement with Robinson on 7/1/21; and
- Robinson received none of the buyout payments from SCI which Gaskin retained in his role as SCI CEO and later confirmed by Gaskin to the SIG.

In addition, Pruitt stated Gaskin represented to her that ACFS would be evicted from its 1402-C office space if a lease buyout payment did not make the property owner (i.e., Robinson) whole.

The SIG determined Gaskin artificially interposed SCI as the lessee of the 1402-C office space at a time when he served concurrently as SCI's CEO. When Gaskin, as the GCFS executive director, entered GCFS into a sublease agreement with SCI it lacked an arms-length relationship. As a result of this conflict of interest, Gaskin expended state funds as the GCFS executive director that benefited his nonprofit, SCI. The SIG previously addressed Gaskin's conflict of interest relationship in his dual role as GCFS executive director and SCI CEO in its 2021 *Review of the Greenwood County and Abbeville County First Steps Partnerships*.

The SIG further determined the GCFS and ACFS Boards were deficient in their respective governance and oversight of the monthly rental payments for FYs 2018 – 2021. The monthly rental payments made to SCI resulted in $15,816 in excess payments from GCFS funds over a four-year period, and $6,600 in excess payments from ACFS funds over a two-year period – a total of $22,416 in state funds. The SIG determined the combined $22,416 in excess rental payments wasted state funds. *(See Table A, page 7)*

The SIG determined the ACFS procurement process for the fatherhood and parenting administrator was inconsistent with Section 11.O of the partnership's grant agreement with SC First Steps, which required the use of due care in the selection of contractors, including competitive bidding. In addition, the SIG determined Pruitt's conduct as an ACFS officer with discretionary authority over the procurement solicitation was inconsistent with her duties of due care and good faith imposed by law.

Pruitt falsely advised the SIG that she merely answered questions about minimum candidate qualifications posed by board committee members. In fact, she presented a completed version of the position requirements to Board members with minimum qualifications that mirrored Gaskin's resume.

VII. Findings and Recommendations

Finding#1a: On 8/5/21, Michael K. Gaskin, as the GCFS executive director, authorized the disbursement of $4,250 (check #2250) to SCI for a sublease buyout payment that was an unnecessary and wasteful expenditure of GCFS state funds that lacked any substantive justification within the sublease agreement. This is further supported by the fact the final intended recipient/lessor (Sammie Robinson) was unaware of the sublease buyout payment made to SCI (the lessee) and never received the monies which were retained by Gaskin in his capacity as the SCI CEO.

Finding#1b: For the four-year period of FYs 2018 – 2021, Michael K. Gaskin, in his capacity as the GCFS executive director, authorized the payment of $15,816 in state funds that exceeded the required lease payments owed by SCI (lessee) which were not remitted to the lessor (Sammie Robinson) but retained by SCI as net rental income. This is further supported by the fact the intended recipient/lessor (Robinson) was unaware of the excess rental payments retained by SCI and Michael K. Gaskin, SCI CEO.

Finding #1c: The GCFS Board and Michael K. Gaskin, GCFS executive director, lacked due care and were deficient in their oversight of state funds that resulted in the wasteful disbursement of excess rental payments and the sublease buyout payment made to SCI.

Recommendation #1a: The GCFS Board should seek to recoup the $4,250 paid as a sublease buyout payment and currently retained by SCI and Michael K. Gaskin, SCI CEO.

Recommendation #1b: The GCFS Board should seek to recoup from SCI the $15,816 in excess sublease payments paid to SCI and Michael K. Gaskin, SCI CEO.

Recommendation #1c: The SC First Steps Board should consider providing oversight of the GCFS Board's recoupment of the $4,250 in sublease buyout payment and $15,816 in excess sublease payments paid to SCI and Michael K. Gaskin, SCI CEO set forth in Findings #1a and #1b of this report.

Finding#2a: On 7/22/21, Angela Pruitt, as the ACFS executive director, authorized the disbursement of $4,432.43 (check #1924) to SCI for a sublease buyout ($4,250) and utilities payment ($182.43) which was an unnecessary and wasteful expenditure of ACFS state funds that lacked any substantive justification within the sublease agreement. This is further supported by the fact the intended recipient/lessor (Sammie Robinson) was unaware of the sublease buyout payment made to SCI (the lessee) and never received the monies that were retained by Gaskin in his capacity as the SCI CEO.

Finding #2b: For the two-year period of FYs 2020 – 2021, Angela Pruitt, in her capacity as the ACFS executive director, authorized the payment of $6,600 in state funds that exceeded the required lease payments owed by SCI (lessee) which were not remitted to the lessor (Sammie Robinson) but retained by SCI as net rental income. This is further supported by the fact the intended recipient/lessor (Robinson) was unaware of the excess rental payments retained by SCI and Michael K. Gaskin, SCI CEO.

Finding #2c: The ACFS Board and Angela Pruitt, ACFS executive director, lacked due care and were deficient in their oversight of state funds that resulted in the wasteful disbursement of excess rental payments and the sublease buyout payment made to SCI, as well as the procurement for services process regarding the issuance of a contract to Michael K. Gaskin as its fatherhood and parenting administrator in December 2021.

Recommendation #2a: The ACFS Board should seek to recoup from SCI $4,432.43 paid pursuant to the purported lease buyout agreement and currently retained by SCI and Michael K. Gaskin, SCI CEO.

Recommendation #2b: The ACFS Board should seek to recoup from SCI the $6,600 in excess sublease payments paid to SCI and Michael K. Gaskin, SCI CEO.

Recommendation #2c: The SC First Steps Board should consider providing oversight of the ACFS Board's recoupment of the $4,432.53 in sublease buyout and utility payments and $6,600 in excess sublease payments paid to SCI and Michael K. Gaskin, SCI CEO, set forth in Findings #2a and #2b of this report.

Finding#3: The ACFS procurement for services and subsequent contract between ACFS and Michael K. Gaskin was not competitively bid and did not comply with Section 11.O of the partnership grant agreement with SC First Steps, which required the use of due care in the selection of contractors, including competitive bidding. The SC First Steps, upon learning of the contract issued to Gaskin by ACFS, directed the termination of the contract. The ACFS Board authorized the termination of the contract with Gaskin, and no state funds were expended under the contract.

Recommendation #3: The SC First Steps Board should consider providing procurement training to the ACFS staff and Board.