

Office of the Inspector General

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Investigation of Alleged Excessive Travel & Event Expenses by the Board of Trustees, Medical University of South Carolina (MUSC)

I. Executive Summary

The South Carolina Commission on Higher Education (CHE) requested the State Inspector General (SIG), via a letter dated 9/2/2016, to audit alleged excessive spending by the Board of Trustees at the Medical University of South Carolina (M-BoT). A Charleston newspaper article reported the M-BoT spent \$560,000 over a recent five year period for food, drink, and lodging illustrated with anecdotes of excessive spending, such as purchasing \$160 bottles of wine, a \$6,400 farewell dinner, a \$37,430 Christmas party, and liquor store receipts titled, "Board Booze." In its letter, the CHE, which has an oversight role for the state's 33 public institutions of higher learning, commented, "In an environment of skyrocketing costs and runaway spending in higher education, the timing of this news article could not be worse. CHE's responsibility is to protect the students, families, and taxpayers of South Carolina."

The MUSC Academic Medical Center (AMC) is composed of primarily three core entities operating in close coordination under a common strategic plan, which are: MUSC, a public state agency focusing on education, research, and patient care; the Medical University Hospital Authority (MUHA), a public entity operating 700 hospital beds created by the General Assembly in 2000; and the University Medical Associates of MUSC (UMA), a charitable non-profit established by the M-BoT in 1991 to support MUSC's mission. The MUSC AMC, by all measures, is highly successful in providing educational, research, and patient care. The MUSC AMC ranked as the state's #1 hospital, and was nationally recognized as a top tier medical school.

A review of a five fiscal year (FY) audit period determined the M-BoT incurred \$655,048 in travel and event expenses (\$131,009/FY). In a six month audit sample, the total expenses were all (100%) traced to expenses related to physical board meetings, which occurred, at a minimum, six times a year. Based on the audit sample, the average three day M-BoT meeting expense for its 16 members was \$26,169 composed of \$14,489 M-BoT travel [mileage (\$2,534), honorarium (\$1,096), lodging (\$6,607), parking (\$732) and meals (\$3,520)], and \$11,680 meeting event expenses [hotel hospitality room (\$2,114), meeting beverage/snacks (\$1,657), non-BoT members meals and lodging (\$7,909)].

Analyzing M-BoT's travel policy starts with an annual legislative proviso creating an exception for institutions of higher learning (IHL) to avoid using the state's general travel policy. This exception required travel be paid without using appropriated General Funds. MUSC met this exception with its expenses paid by UMA, a closely affiliated charitable non-profit with a sole mission is to support MUSC, to include providing a "practice plan" to the MUSC physician faculty for group medical practice arrangements. As a result of this proviso exception, M-BoT established its own travel policy, similar to UMA's employee travel policy, of actual daily lodging and meal expenses with a maximum of \$300 and \$163, respectively, as well as authorized an identical daily meal expense (\$163) for a M-BoT spouse/significant other.

The M-BoT event policy limited cost to a maximum of \$163/person paid by UMA. Although "events" were not addressed by the annual travel proviso exception, MUSC asserted its event policy was covered by a statute (Section 59-101-187) titled, "Events recognizing academic and research excellence; funding sources." This law may have some applicability with board events recognizing "distinguished guests," such as the Board of Visitors' meetings, but its applicability to provide a basis for a spousal lunch event requires a stretch of the law. Regardless, the SIG recognized the unique mission and broad support funding practices of IHL's affiliated non-profits, so the legal basis of these event payments was determined not to be an issue but is in need of legislative clarification.

As paradoxical as it may seem for a state agency, M-BoT members' reimbursement for such expenses as a \$6,400 farewell dinner and alcohol receipts noted as "Board Booze" appear to be lawful MUSC expenses paid by UMA. The core issue is not can MUSC legally establish generous travel and event policies paid for by

UMA; it can, driven by exceptions from a legislative proviso, a state statute, and IHL's affiliated non-profits practices to provide support. The core issue is what criteria should MUSC use to guide its discretion in setting policies and accept UMA's payment for expenses.

The genesis for this review can be illustrated by public concern raised over state officials reimbursed for apparent excessive food and event expenses, such as a \$160 bottle of wine. Certainly a \$163 meal allowance can promote more liberal spending, such as four M-BoT members splitting a \$160 bottle of wine with their combined \$652 meal allowance. The \$160 bottle of wine purchase is a symptom---the root cause is a generous \$163/day meal policy creating the latitude for such purchases inconsistent with the public's view of a state official's meal expense. The same public optic raises suspicions of abuse when MUSC, a state agency, incurs event expenses more social in nature, to include recurring alcohol purchases to stock a hotel hospitality suite.

To the M-BoT's credit, it has formally established a group to examine its travel and event policies. Some relevant factors for this group to consider should include:

- The M-BoT justified its current T&E policies to show appreciation to its members, who volunteer their time without compensation, as well as made substantial donations totaling over \$7 million in lifetime giving. Further, the M-BoT also served as the board for the MUHA, also without compensation, while similar state "Authority" boards receive salaried compensation.
- The M-BoT daily lodging (\$300) and meal (\$163) rates exceeded comparable federal benchmark policies (\$178 lodging; \$69 meals) by 68% and 136%, respectively, and state policy (\$178 lodging; \$25 meals) by 68% and 552%, respectively. The audit sample's \$14,489 average meeting travel expense would be reduced to \$11,615 (80%) and \$10,406 (72%) using federal & state benchmarks, respectively.
- Inasmuch as UMA is a charitable non-profit with the sole mission to support MUSC, any use of UMA funds by the M-BoT comes at the opportunity cost of these same funds not being available for MUSC core mission programs and higher priority needs.
- Excessive expenses, real or perceived, damages the trust and confidence of MUSC stakeholders, to include students, donors, patients, and taxpayers.

This review found the M-BoT did not violate the law establishing its travel and event policies, as well as there was no evidence of intentional abuse or wrongdoing. If MUSC was a private company, the M-BoT's economic justification for its travel and event policy as a benefit for uncompensated members would be beyond reproach. It is not. It is a state agency where taxpayers currently provide over \$100 million/year and have been providing public funds for over 100 years. From the public's optic, \$160 bottles of wine, a lavish Board of Visitors' dinner, an expensive going away party, and large alcohol purchases for a hospitality room paid for MUSC officials can reasonably be expected to create an impression or suspicion among the public of MUSC violating the public's trust. Although not expressly required by statute or regulation, it is well understood governmental decisions should be in the public interest, most notably protecting the public trust (i.e., avoid even the appearance of impropriety) and be a good steward of taxpayer funds (i.e., taxpayer value). Creating the mere perception of abuse among the public is indicative of a problem policy. A factual analysis by any reasonable person of the M-BoT current travel and event policies' benefits would deem them as, conservatively, "generous" by governmental standards, which come at an opportunity cost of using UMA funds for higher priority MUSC needs. As a result, MUSC, a state agency, and the M-BoT, public servants, should consider moderating its travel and event policies.

The CHE's sensitivity to M-BoT's travel and event expenses is not about money; it is about an IHL's decision making process in a state, South Carolina, with the 8th highest average IHL tuition and fees in the nation. To meet CHE's new noteworthy mission of "access, **affordability** (SIG emphasis), and excellence," it will take a renewed IHL fiduciary mindset to align its employees' decisions, both big and small, to drive down IHL costs.

Table of Contents

	<u>Page</u>
I. Executive Summary	1
II. Background.....	4
A. Predicate.....	4
B. Scope & Objectives.....	4
C. Medical University of South Carolina (MUSC) Overview	5
III. Audit of MUSC Board of Trustees’ (M-BoT) Travel & Event (T&E) Expenses	5
A. Laws and Policies Governing M-BoT T&E Expenses	6
1. State Law for General Employee Travel.....	6
2. State Law Exception for Institutions of Higher Learning Travel.....	6
3. M-BoT T&E Policies	6
4. M-BoT T&E Expense Processing Procedures	6
B. Analysis of M-BoT T&E Expenses	7
1. Total M-BoT T&E for Five-Year Period of FYs 2011/12 – 2015/16...	7
2. Analysis of Six Month Sample 1/1/2015 – 6/30/2015	7
3. Analysis and Benchmarking M-BoT T&E Expenses.....	8
a. M-BoT Travel Expenses.....	8
b. M-BoT Event Expenses	10
IV. Factors to Consider in Future T&E Policy Development.....	10
A. Appreciation for M-BoT Members’ Volunteer Service.....	10
B. Impact of University Medical Associates’ Role in the MUSC AMC Mission.....	10
C. Financial Impact of MUSC’s Actual T&E Compared to Benchmarks	11
D. IRS Regulation Guidance	11
E. Protecting the Public Trust.....	12
F. Reputational Risk.....	12
V. Way Forward	12
VI. Findings & Recommendations.....	13
List of Appendices	16
(Appendices located at Internet link: http://oig.sc.gov/Documents/MUSC_Review_Appendices)	

ADMINISTRATIVE: MUSC’s comments on report located at Internet link:
http://oig.sc.gov/Documents/MUSC_Review-Response

II. Background

A. Predicate

The South Carolina Commission on Higher Education (CHE) requested the State Inspector General (SIG), via a letter dated 9/2/2016, to audit alleged excessive spending by the Board of Trustees at the Medical University of South Carolina (M-BoT) (see Appendix A). The allegation originated from a derogatory newspaper article (8/25/2016) and editorial (8/29/2016) published by the Post & Courier Newspaper, Charleston, South Carolina (see Appendix B). The article alleged the 16-member M-BoT spent \$560,000 over a five year period for food, drink, and lodging, which was illustrated by anecdotes of excessive spending, to include:

- “Three bottles of \$160 Italian Barolo (wine) were part of a \$1,482 tab several members rang up at the Fulton Five (restaurant);”
- “A \$6,400 farewell dinner” for two trustees and a staff member;
- “A \$37,430 Christmas banquet, including \$5,600 for cocktails, at Charleston Place, one of the Holy City’s top luxury hotels;” and
- “Nearly \$700 worth of alcohol at Burriss Liquor Store and Pence’s Liquor & Wine before a February 2015 meeting,” along with similar receipts published in the newspaper article with the handwritten notation, “Board Booze.”

In its letter, the CHE, which has an oversight role for the state’s 33 public institutions of higher learning (IHL), commented, “In an environment of skyrocketing costs and runaway spending in higher education, the timing of this news article could not be worse. CHE’s responsibility is to protect the students, families, and taxpayers of South Carolina. In order to properly address this situation, the first step is to be proactive in trying to find the facts.”

The CHE also requested a similar review of Clemson University and the University of South Carolina’s BoTs’ expenses. The SIG accepted the allegation at MUSC for review, but the necessity for similar reviews at other state universities was held in abeyance until after the completion of the MUSC review. Inasmuch as the review is now complete, the SIG will refocus the CHE’s initial request to now examine the management controls on the general use of affiliated non-profit funds at these two universities, which will also include review of their BoT’s spending policies.

B. Scope & Objectives

This review’s scope and objectives were:

- Identify and analyze all M-BoT travel and event (T&E) expenses for a five-year audit period from FY 2011/12 through FY 2015/16;
- Determine MUSC’s compliance with all relevant state laws, regulations, and policies applicable to M-BoT T&E expenses; and
- Identify opportunities to improve M-BoT’s T&E policies.

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. Medical University of South Carolina Overview

The term MUSC is often generically used to encompass the variety of related entities working together as the MUSC Academic Medical Center (AMC). The MUSC AMC is composed of primarily three core entities operating in close coordination under a common strategic plan with their combined 13,000 employees and \$2.3 billion in annual revenues (FY 2014-2015 financial report). These three entities are:

- MUSC is a public state agency focusing on education, research, and patient care with 5,400 employees and \$677 million in annual revenues. In FY 2014-2015, MUSC annual revenues included \$108 million (16%) in state appropriations.
- The Medical University Hospital Authority (MUHA) is a public entity created by the General Assembly in 2000, which operates 700 hospital beds with 6,700 employees and \$1.3 billion in annual revenues. It does not receive recurring state appropriations, although in FY 2014-2015, it received \$20 million for a telemedicine program.
- The University Medical Associates of MUSC (UMA), also known as MUSC Physicians, is a charitable non-profit established by the M-BoT in 1991 to support MUSC’s educational, research, and clinical missions. UMA is designed to be a “practice plan” with 877 employees and \$358 million in annual revenues. The UMA “practice plan” provides the MUSC physician faculty with group practice arrangements for in-hospital and out-patient clinical services. UMA collects and manages all revenue generated from which it pays operational expenses, supplements MUSC physicians (800) salaries to promote a high quality staff, and supports MUSC AMC’s overall missions. The clinical practice provides the vehicle for students to learn clinical skills. UMA does not receive state appropriations.

MUSC and MUHA have the same 16 member M-BoT. UMA’s 20 member BoT is comprised of 12 MUSC officials (60%), two MUHA, four community leaders, and two members selected at large by the UMA BoT. All three entities operate under one overarching MUSC AMC strategic plan.

The MUSC AMC, by all measures, is highly successful providing educational, research, and patient care. The MUSC AMC is ranked the state’s #1 hospital in a U.S. News & World Report. Its multi-disciplinary staff with high medical expertise uniquely serves the state’s health needs treating one million patients annually, often the most complicated cases and sickest patients. It is nationally recognized as a top tier medical school with an enrollment of 3,000 students in its six colleges (medical; dental; health professions, nursing, pharmacy, and graduate studies). It has a \$3.8 billion economic impact in the Charleston metropolitan area supporting 28,000 jobs.

III. Audit of MUSC Board of Trustees’ Travel & Event Expenses

The SIG reviewed the laws and policies governing M-BoT T&E expenses during the five-year audit period (7/1/2011 – 6/30/2016). The expenses were analyzed from a number of perspectives to provide a contextual understanding of the types of T&E expenses incurred.

A. Laws and Policies Governing M-BoT T&E Expenses

1. State Law for General Employee Travel

During the audit period, an annual state proviso law established provisions for general state employee travel, to include agency boards and commissions. Travel reimbursements were for actual expenses. Meals were limited to a maximum of \$25/day in-state and \$32/day outside of South Carolina. Lodging was limited to the maximum lodging rate, excluding taxes, established by the U.S. General Services Administration (GSA). The current GSA daily lodging rate for Charleston varied based on the season from \$146 - \$211 with an annual weighted average of \$178/day.

2. State Law Exception for Institutions of Higher Learning Travel

During the audit period, an annual state proviso law created an exception for travel expenses at IHLs (see Appendix C). This exception required travel be paid without using appropriated General Funds, which MUSC met inasmuch as its travel expenses were paid by UMA, a closely affiliated charitable non-profit.

3. M-BoT T&E Policies

The annual proviso exception for IHL travel expenses did not provide further guidance. As a result, the M-BoT established its T&E policy by adopting UMA's employee travel policy in effect during the audit period. The UMA travel policy reimbursed actual lodging expenses up to \$300/day, excluding taxes, and \$136/day meals plus a 20% gratuity for maximum \$163/day. Additionally, the M-BoT created an additional policy, effective 2/13/2015, permitting an identical daily meal expense (\$163/day maximum) for a M-BoT spouse or significant other. This travel policy served as the foundation for event budgeting; the event cost per person could not exceed the travel meals maximum of \$163/day.

Through interview, MUSC's generous T&E policies appeared designed to show appreciation to its members. Highly skilled and experienced M-BoT members volunteer a substantial amount of their time without compensation through at least six board meetings per year, as well as donate substantial funds to MUSC. MUSC reported the lifetime donations of all the M-BoT members serving during the five-year audit period totaled \$7,222,424.

MUSC's M-BoT sponsored event policy limited cost to a maximum of \$163/person, which was paid by UMA. Although "events" were not addressed by the annual travel proviso exception, MUSC asserted its event policy was covered by a State statute (Section 59-101-187) titled, "Events recognizing academic and research excellence; funding sources (see Appendix D)." This law may have some applicability with board events recognizing noteworthy accomplishments of "distinguished guests," such as Board of Visitors' joint meetings, but its applicability to provide a legal basis for a spousal lunch or routine recurring board meeting food/alcohol refreshments requires an unhealthy stretch of a plain reading of this law (1999). Regardless, the SIG recognized the unique mission and broad support funding practices of IHL's affiliated non-profits, so the legal basis of these event payments was determined not to be an issue but is in need of legislative clarification.

4. M-BoT T&E Expense Processing Procedures

M-BoT T&E expenses were paid via two mechanisms. First, M-BoT members could request direct reimbursement for travel related expenses. These expenses were generally for mileage, meals, and a \$35 daily per diem (honorarium) provided by state law. Second, the M-BoT Secretary coordinated direct vendor billing to MUSC, which generally pertained to covering negotiated hotel room expenses, catering food service for board meetings, and group dinner events. Reimbursement requests and vendor invoices were reviewed by

M-BoT administrative staff for policy compliance and verified member's attendance at the M-BoT sponsored meeting. Subsequently, these expense reimbursement requests were forwarded to UMA for payment. UMA staff conducted a second review for policy compliance and then processed the reimbursement for payment.

All MUSC and UMA staff only reviewed for policy compliance when processing reimbursement requests or vendor invoices; they did not consider themselves an authorizing authority to use UMA funds to pay M-BoT T&E expenses. Neither MUSC nor UMA had a formal document where UMA agreed to pay M-BoT T&E expenses. As a result, it appears to be an undocumented practice for M-BoT to unilaterally authorize M-BoT travel and event expenses, for which UMA paid all bills with the only condition the expenses met the compliance standards for the daily maximum expense.

B. Analysis of M-BoT T&E Expenses

The review established a five-year audit period from FY 2011/12 through FY 2015/16 (7/1/2011 – 6/30/2016). The population of M-BoT T&E expenses was identified, which was followed by a detail review of a six month sample (10% of audit period) to provide an in-depth understanding of expenditure patterns.

1. Total M-BoT T&E for Five Year Audit Period of FYs 2011/12 – 2015/16

During the five-year audit period, the M-BoT incurred \$655,048 in T&E expenses for an average of \$131,009/FY. Of this amount, MUSC paid expenses of \$250,364, which were generally mileage, honorarium, and miscellaneous travel costs. The residual expenses of \$404,684 were meals and lodging paid by UMA.

2. Analysis of Six Month Sample 1/1/2015 – 6/30/2015

The SIG selected a six month sample period, 1/1/2015 to 6/30/2015, to examine M-BoT expenses to provide an in-depth understanding of expenditure patterns. The total expenditures for this period were \$105,482, which contained expenses associated with four board meetings: 12/10-12/2014; 2/11-13/2015; 4/8-10/2015; and 5/12-14/2015. The 2015 expenses associated with the December 2014 M-BoT meeting (\$23,470) were excluded from SIG analysis, because these expenses only represented partial expenses for this meeting. This allowed the SIG to focus on analyzing the expenses from three complete M-BoT meetings in the sample period totaling \$78,517, and allow comparative analysis of multiple M-BoT meetings. There were \$3,495 in expenses outside of a scheduled board meeting, but all pertained to board business, such as travel for a subcommittee meeting and MUSC administrative costs to operate the board. Of the \$105,482 in expenses during the sample period, 100% pertained to a physical board meeting and nominal administrative costs. The residual population not contained in the detail sample (90%) was analytically reviewed, which revealed a similar pattern of expenses associated with board meetings as identified in the sample (10%).

Based on interview and review of expenses during the sample period, a typical M-BoT meeting started on a Wednesday and ended on a Friday. M-BoT members traveled to Charleston via their personal vehicles and stayed at the same hotel in downtown Charleston. There was no board sponsored dinner function on Wednesday night, so members dined at a variety of local restaurants. On Thursday, board committee meetings were held on the MUSC campus, approximately 12 blocks from the hotel. Generally a beverage/snack table was catered throughout the workday, and a catered lunch was provided. Thursday night dinner could vary from a board sponsored function, which could have no cost, such as attending a Honorary Degree Recipient Dinner (May 2015) paid by another sponsor, to an event of over a hundred dinner guests, such as a joint M-BoT and Board of Visitors' dinner (April 2015), at a M-BoT cost of \$21,445. On Friday morning, the M-BoT conducted the MUSC and MUHA board meetings in a sequential order. A beverage/snack table was catered during the meeting, but lunch was not provided. M-BoT members generally departed Charleston on Friday via their personal vehicles.

A review of board meetings identified two categories of expenses: M-BoT member travel expenses and meeting event expenses. Travel expenses were personal car mileage reimbursements (\$.50/mile); daily statutory honorarium (\$35/day); lodging (actual to maximum \$300/day); meals (actual to maximum \$163/day); and hotel valet parking. Meeting event expenses included a hotel hospitality room; daily catered beverage/snack table; and catered lunches, dinner functions, and lodging expenses for non-BoT members.

Below is an analysis of the February, April, and May 2015 M-BoT meeting expenses:

Expense Classifications	February 2015 M-BoT Meeting			April 2015 M-BoT Meeting			May 2015 M-BoT Meeting		
	Travel Expenses	Meeting Expenses	Total	Travel Expenses	Meeting Expenses	Total	Travel Expenses	Meeting Expenses	Total
Mileage	2,823	-	2,823	2,487	-	2,487	2,292	-	2,292
Honorarium	1,155	-	1,155	1,190	-	1,190	945	-	945
Lodging	5,154	398	5,552	5,258	239	5,497	7,052	750	7,802
Lodging tax	696	53	749	710	32	742	952	65	1,017
Valet Parking @ lodging	733	-	733	678	-	678	787	-	787
Hotel Hospitality Room	-	1,889	1,889	-	2,085	2,085	-	2,368	2,368
Meeting Beverages/Snacks	-	1,976	1,976	-	2,015	2,015	-	980	980
Breakfast-Lodging Invoice	516	9	525	176	16	192	481	-	481
Wed. Dinner + misc. food *	1,287	-	1,287	2,236	-	2,236	1,432	-	1,432
Thursday Catered Lunch	336	387	723	320	401	721	251	-	251
Thursday Dinner Function	1,064	2,396	3,460	2,461	18,984	21,445	0	0	0
Total	\$13,764	\$7,108	\$20,872	\$15,516	\$23,772	\$39,288	\$14,192	\$4163	\$18,355

*contained 17 spousal meals totaling \$1,507 [2/15-\$402 (4); 4/15-\$713 (8); and 5/15-\$392 (5)]

Expense classifications had some expected variations between M-BoT meetings, with the exception of the Thursday night dinner function. Thursday night dinner functions had the widest variability ranging from \$0 to \$21,445. In February, the M-BoT joined a total guest list of 50 for an oyster roast at an average cost of \$66/person requiring catered food, bar service, transportation van, and tent rentals. In April, a joint M-BoT dinner with its Board of Visitors had over 130 guests at a cost of \$21,445 (\$15,860 meal; \$4,398 bar service; \$535 audio; and \$652 flowers) at an average cost of \$148/person. In May, the M-BoT had \$0 dinner cost by attending a Honorary Degree Recipient dinner function paid by a source outside of the M-BoT. The vast majority (85%) of these total Thursday night functions costs (\$24,905) were not for M-BoT members, but rather non M-BoT participants' costs at events (\$21,380).

3. Analysis and Benchmarking M-BoT T&E Expenses

Despite the M-BoT having the discretionary authority to establish its own T&E policies, bringing to bear relevant benchmarks and analysis provides data to assess M-BoT's current T&E policies and potential criteria to consider modifying the current policy.

a. M-BoT Travel Expenses

The state and federal governments have established travel benchmarks suitable for comparison to M-BoT's travel policy. The three board meetings' actual expenses were compared to federal and state travel policies. The 2015 federal travel rates were \$56 meals/day and lodging varied based on seasonal months of \$142 in February and \$186 in April and May. The 2015 state travel rates were \$25 meals/day with the same federal lodging rates. The state policy applied to the average M-BoT board meeting travel expense of \$14,489 yielded an estimated expense of \$10,406, which was \$4,083 (28%) less than actual expenses. It should be noted the state travel rates are used by boards and commissions, outside of IHLs, to reimburse travel expenses to attend board and commission meetings.

Each of the three board meeting’s comparative analysis of actual expenses to federal and state travel policies is contained in Appendix E. The average of these three months’ actual M-BoT expenses compared to the average federal policy estimates are in the below table:

Expense Classification	Avg. M-BoT Travel Actual Expenses	Avg. Federal Travel Policy Estimate	Difference
Mileage	2,534	2,534	-
Honorarium	1,096	1,096	-
Lodging	5,821	4,283	1,538 (54%)
Lodging tax	786	786	-
Lodging - Valet Parking	732	732	-
Meals – M-BoT Members	3,018	2,184	834 (29%)
Meals – M-BoT Spouses	502	-	502 (17%)
Total	\$14,489	\$11,615	\$2,874 (100%)

The most reasonable benchmark would be using the federal travel policy given the only difference with the state policy is the daily meal rate of \$56 (2015) rather than \$25. The federal policy applied to the average M-BoT board meeting travel expense of \$14,489 yielded an estimated expense of \$11,615, which was \$2,874 (20%) less than actual expenses. This difference was attributed to lodging expenses (54%); M-BoT member meals (29%); and expenses as a result of the M-BoT member spouse/significant other policy (17%). The differential between the federal estimate and M-BoT actual accommodations was only 20%, which indicates the “driver” of M-BoT’s overall travel expense is due to the frequency of M-BoT meetings rather than the generous travel benefits as compared to benchmarks. Further, the M-BoT is statutorily mandated to meet six times a year, which adds a multiplying factor to M-BoT expenses.

Despite the daily lodging allowance of \$300, the actual M-BoT daily lodging rate was \$239 at the Planters Inn, downtown Charleston. Additionally, the actual M-BoT meal costs were much lower than the daily \$163 meal allowance. The average M-BoT member on travel status as indicated by hotel room charges on Wednesday nights was 13, yet only 10 M-BoT members, on average, submitted reimbursement for Wednesday dinner. The 13 M-BoT members still in travel status on Friday rarely submitted meal reimbursement requests during the audit period, yet would be entitled to \$56 per diem regardless of actual costs under federal policy. The individual dinner expenses during the six month period ranged from \$25 to \$148 with an average actual dinner cost for the three meetings of \$89/day, which was 54% of the federal maximum allowance as denoted in the below table:

Board Meeting	Wednesday Actual Dinner	Thursday Actual Dinner	Average
February 2015	\$105	\$74	\$89
April 2015	\$106	\$148	\$127
May 2015	\$98	\$0	\$49
Average	\$103	\$74	\$89

The genesis for this review can be illustrated by public concern raised over state officials reimbursed for excessive food expenses, such as a \$160 bottle of wine. Certainly a \$163 meal limit can promote more liberal spending, such as four members splitting a \$160 bottle of wine with their combined \$652 meal allowance. The \$160 bottle of wine purchase is a symptom---the root cause is a very generous \$163/day meal allowance, particularly when compared to available federal (\$56/day) and state (\$25/day) meal allowance benchmarks, creating the latitude for such purchases inconsistent with the public’s view of a public official’s meal expenses.

b. M-BoT Event Expenses

A review of the \$35,043 event expenses during the six month audit period yielded an average \$11,680 event expense per board meeting detailed below:

Event Expense Classifications	Total Event Expenses	Average Expense per M-BoT Meeting
Hotel Hospitality Room	\$6,342	\$2,114
Meeting Beverage/Snacks	\$4,971	\$1,657
Lunch: non-BoT attendees	\$813	\$271
Dinner Function: non-BoT attendees	\$21,380	\$7,126
Lodging: non-BoT attendees	\$1,537	\$512
Total	\$35,043	\$11,680

The state and federal governments do not permit its agencies to expend public funds for “event” expenses. As noted earlier in this report, legislative exceptions and broad support funding practices of IHL’s affiliated non-profits created conditions for IHL events to be paid by affiliated non-profits.

IV. Factors to Consider in Future T&E Policy Development

As paradoxical as it may seem for a state agency, M-BoT members’ expenses reported in the media for \$160 bottles of wine, a \$6,400 farewell dinner, a \$37,430 Board of Visitors’ dinner, and alcohol receipts noted as “Board Booze,” appeared to be lawful expenses by MUSC, a state agency, when paid by UMA, its affiliated non-profit. The core issue is not can MUSC legally establish generous T&E policies and UMA pay all the expenses—they can because it does not violate the law. The core issue is what criteria should MUSC use to guide its discretion in setting T&E policies and accept UMA’s payment of these expenses.

To the M-BoT’s credit, it has formally established a group to examine its travel and event policies. It may be helpful to examine several factors that may impact future T&E policy considerations.

A. Appreciation for M-BoT Members’ Volunteer Service

The legal authorities and affiliated IHL’s non-profit funding practices creates the latitude to use the M-BoT’s T&E policies to show appreciation to its members, who volunteer substantial time without compensation, as well as made substantial donations totaling over \$7 million in lifetime giving. It was noted M-BoT also served as the board for the Medical University Hospital Authority, also without compensation, while similar state “Authority” boards receive salaried compensation.

B. Impact of University Medical Associates’ Role in the MUSC AMC Mission

Despite UMA’s legal entity difference as a charitable non-profit, UMA intimately operates on a daily basis with its two sister **public entities** (SIG emphasis) in pursuing their common overarching MUSC AMC mission of education, research, and patient care. Further, UMA’s charitable non-profit mission is virtually the same as MUSC’s inasmuch as UMA’s mission is to benefit the programs and further the mission of MUSC. UMA’s existence is to support MUSC, so using its funds to pay for MUSC travel and events does have a direct opportunity cost of those funds not being available for other MUSC mission needs.

UMA was established through a discretionary decision by the M-BoT in 1991 as a non-profit charity under IRS Code Section 509(a)(2). UMA is known as a “practice plan”, which provides the MUSC physician faculty with group practice arrangements for in-hospital and out-patient clinical services. Nationally, all academic medical

schools organized practice plans to generate clinical revenues to supplement faculty physician salaries and offset other medical school expenses. It appears the majority of the nation's medical schools placed their practice plans in charitable non-profits, such as UMA, for business and legal liability reasons, but this also could lessen the medical schools' direct control over the expected annual excess funds. However, despite these expected annual excess funds contained in a separate entity, it appears the M-BoT protected the public benefit of these funds through UMA's charitable non-profit's purpose to support MUSC missions, as well as structuring 60% of UMA's BoT with MUSC employees.

MUSC's FY 2014-15 financial statement succinctly described UMA as a separate legal entity from MUSC, but also noted UMA is "so intertwined with it (MUSC) that it is, in substance, the same as the primary entity (MUSC)." It goes on to state UMA is considered to be a "governmental entity that conducts business-type transactions." UMA's \$343 million in clinical revenue was generated primarily by the 800 faculty physicians employed by MUSC, who receive the majority of their MUSC compensation from UMA fund transfers back to MUSC in the form of salary supplements and performance bonuses. Physicians are clearly the talent making UMA very successful, but UMA is not owned by a physician's group. UMA is a non-profit enterprise established by the wisdom of the M-BoT in 1991 to employ physicians to meet public health and medical educational needs, along with the concurrent benefit of producing revenue to provide salary supplements to the faculty physicians and support MUSC programs.

UMA is not a public entity and its funds are not subject to public fund laws. However, any perception UMA being a disinterested, independent non-profit doctor's group providing T&E reimbursement of funds to MUSC without impacting other MUSC missions or taxpayers is not accurate. UMA's is a **charitable** (SIG emphasis) non-profit with a single purpose to support MUSC's programs. Any excessive T&E expenses incurred by the M-BoT and funded by UMA has a direct opportunity cost of the same funds not being available for UMA to fund MUSC mission programs. UMA not funding any excessive T&E expenses does not necessarily equate to lower tuition; however, it would equate to an increase in UMA's unrestricted funds with its sole mission to support MUSC mission related programs.

C. Financial Impact of MUSC's Actual T&E Compared to Benchmarks

The most reasonable travel policy benchmark would be using the federal travel policy. The federal travel policy applied to the average M-BoT's meeting travel expense of \$14,489 yielded an estimated expense of \$11,615, which was \$2,874 (20%) less cost per board meeting. This \$2,874 average board meeting difference annualized to \$17,244 lower travel costs per year, which would be \$86,220 over the five year audit period.

Both state and federal governments do not permit its agencies to expend public funds for "event" expenses, such as the average M-BoT's meeting event expense of \$11,680. Based on a combination of state law and the common practice of IHL's affiliated non-profits providing broad support to IHLs, this review is not challenging the legal basis for the M-BoT's "event" expenses. However, the M-BoT oversees a state agency providing event expenses during its board meetings, which are not available to the majority of its sister state agencies' boards and commissions outside of IHLs.

D. IRS Regulation Guidance

Due to the annual proviso, M-BoT appears to be under no limitations in establishing its own travel policy. However, UMA's non-profit status requires its expenses to be an ordinary and necessary business related expenses. The IRS defines ordinary as "common in your field of trade, business or profession"; and necessary as "helpful and appropriate for your business." The IRS states that meals, hotels and entertainment expenses cannot be "lavish or extravagant." Further, the IRS generally prohibits spousal travel as a business expense, absent the spouse having an integral role in the business meeting.

E. Protecting the Public Trust

This report's main issue – the discretionary judgment used to establish M-BoT's T&E policy - is a factor found in many questionable decisions in state government. The vast majority of wasteful spending or integrity allegations to the SIG do not result in findings of intentional wrongdoing, as is the case in this review. Rather, most resemble a past questionable decision made without deep consideration of its impact on the public's interest by protecting the public trust (i.e., avoid even the appearance of impropriety) and be a good steward of taxpayer funds (i.e., taxpayer value). These "blind spot" decisions made in a vacuum can sound quite reasonable, such as appreciation for its members' volunteer service, yet these same decisions fall short when viewed through the wider public lens of officials fulfilling their fiduciary duty with decisions consistent with maintaining the public's trust and adding taxpayer value. From the public's optic, excessive or lavish travel and event expenses as set forth in the Charleston Post & Courier articles can reasonably be expected to create an impression or suspicion among the public of MUSC violating the public's trust.

F. Reputational Risk

Perhaps the most relevant factor to consider moderating the T&E expenses is to mitigate the risk of damaging MUSC AMC's likely greatest asset – its reputation. As a wise person said, "reputation is gained in inches over time, but it can be lost in miles in minutes." When key stakeholders paying MUSC their hard earned money, such as students, parents, donors, and taxpayers, read in the paper about M-BoT members alleged excessive spending, such as the \$160 bottle of wine and luxury Board of Visitors' dinner, the immediate trust lost is likely not recoverable with the bureaucratic response M-BoT had the legal authority to pay these expenses due to legislatively provided exceptions. Wasteful spending, real or perceived, damages the trust and confidence from stakeholders MUSC needs to navigate today's complex and competitive medical environment.

V. Way Forward

This review found the M-BoT appeared to have the legal authority to establish its T&E policies, as well as there was no evidence of intentional abuse or wrongdoing. If MUSC was a private company, the M-BoT's economic justification for its travel and event policy as a benefit for uncompensated members would be beyond reproach. It is not. It is a state agency where taxpayers currently provide over \$100 million/year and have been providing public funds for over 100 years. From the public's optic, \$160 bottles of wine, an expensive going away party, and large alcohol purchases for a hospitality room paid for MUSC officials can reasonably be expected to create an impression or suspicion among the public of MUSC violating the public's trust, as evidenced by public media reporting. Although not expressly required by statute or regulation, it is well understood all governmental decisions should be in the public interest, most notably protecting the public trust (i.e., avoid even the appearance of impropriety) and be a good steward of taxpayer funds (i.e., taxpayer value). Creating the mere perception of abuse among the public is indicative of a problem policy. A factual analysis by any reasonable person of the M-BoT current travel and event policies benefits would deem them as, conservatively, "generous" by governmental standards. As a result, MUSC, a state agency, and the M-BoT, public servants, should consider moderating its T&E policies, where the corresponding reduction of using its affiliated non-profit's funds can be redirected to its core mission.

This review was appropriately needed to address public concerns and restore public confidence, but at the same it was such a disservice to MUSC for this issue to tinge its reputation, given it is, by all measures, an admired and highly successful state agency. The sad reality is prior similar situations, both real and frequently perceived, have created a sound basis for the public to be skeptical of government. As a result, any agency misstep can quickly snowball into a media frenzy of abuse and corruption. Unfortunately, any individual

agency misstep, whether real, perceived, or a little of both, causes damage to the public's trust in **all of state government** and must be vigilantly guarded against.

Improvements based on this review may require a few rules to restrict IHLs' discretion in travel and event policies. However, the larger issue to prevent the missteps undermining the public's confidence is elevating and reinforcing a fiduciary duty mindset of all state employees and officials to protect public interests in state government decisions. Currently, state law or regulations do not contain an explicit principle for state employees' decision making to protect the public interest. Although such an approach is aspirational and lacks the concrete comfort of a rule, the state would have less bad decisions and less hollow excuses defending bad outcomes when governmental decision explanations must always start with: 1) how it protected the public trust; and 2) how it demonstrated good stewardship of public funds.

MUSC is not alone in its decision making impacted by affiliated charitable non-profits' available resources to support IHLs. This is the third SIG review of an IHL's use of funds from an affiliated charitable non-profit (i.e., UMA, foundations, etc.), which would be considered obvious abuse if public funds were used. In all three instances, IHL officials saw no issue or felt helpless because affiliated charitable non-profit funds were not public funds allowing these non-profit entities to spend these funds on the host university as they deemed appropriate. Whether this thinking process is naïve or conveniently tacitly endorsed, it should change. These charitable non-profits exist only with the concurrence, coordination, and, most of all, support of the host IHL. Certainly IHL leadership can influence excessive or non-necessity spending inside its own walls by these entities. If these entities spend on events to generate increased donations, it is well understood as a business fundraising expense. However, mere spending on low priority needs to benefit the IHL or its personnel should be challenged as to its value compared with other IHL core mission programs.

Given the non-existent travel limits provided to IHLs by the annual legislative proviso and current affiliated non-profits funding practices, there is a high likelihood IHLs' BoTs spending comply with existing law. The larger question raised in this review coupled with two prior SIG reviews pertains to what internal controls exist at these IHLs to manage its relationships with affiliated non-profits providing assurance these non-profit funds are guided toward priority mission programs. As a result, the SIG will refocus the CHE's initial request to now examine the management controls on the general use of affiliated non-profit funds at Clemson University and the University of South Carolina, which will also include review of their BoT's spending policies.

The CHE's sensitivity to M-BoT's travel expenses certainly appears not designed to yield cost savings to fix the escalating costs of higher education tuition. Rather, the decision making process in the alleged conduct seemed inconsistent with CHE's noteworthy mission strategy of "access, **affordability** (SIG emphasis), and excellence." To effectively drive down tuition in a state with the 8th highest average tuition and fees in the nation, it will take a renewed IHL fiduciary mindset to align its employees' decisions, both big and small, to this affordability strategy in order to drive down IHL costs.

VI. Findings and Recommendations

Finding #1: There was no evidence of intentional abuse or wrongdoing by the M-BoT.

Finding #2: The M-BoT T&E expense policies and UMA's corresponding payments for M-BoT expenses did not violate state law.

Recommendation #2a: The General Assembly should consider revising its annual proviso creating an exception for institutions of higher learning from statewide travel policies by providing guidance or monetary limits to prevent reputational damage from the public's view of real or perceived wastefulness from overly generous travel benefits for state officials.

Recommendation #2b: The General Assembly should consider examining the current statewide travel policy meal limit of \$25/day in-state and \$32 out-of-state for reasonableness, which may help mitigate the need for the current travel policy exception for institutions of higher learning.

Finding #3: The current M-BoT T&E policies and corresponding travel reimbursements from UMA were inconsistent with M-BoT's public nature, public expectations, and reputational risk management, as well as, most importantly, created an opportunity cost for overly generous reimbursements not being available for MUSC core mission programs and higher priority needs.

Recommendation #3a: M-BoT should consider eliminating its policy providing daily meal reimbursements (\$163 limit) for spouses or significant others.

Recommendation #3b: M-BoT should consider moderating its current T&E policy to more "ordinary and necessary" business expenses consistent with the public's expectation of reasonable travel related expenses for state officials.

Recommendation #3c: M-BoT should establish a formal mechanism for UMA to authorize payment of M-BoT expenses.

Recommendation #3d: The General Assembly should consider requiring, either through leadership direction or specific requirements, institutions of higher learning Agency Heads engage their influence with affiliated charitable non-profits' expenditures to optimize their funds towards its core mission programs, as well as establish management controls to minimize risk of funds used for low priority expenditures.

Recommendation #3e: The General Assembly should consider clarifying the appropriateness of institutions of higher learning's current practice of affiliated non-profits paying for IHL events and BoT meeting expenses, possibly through re-evaluation of state statute, Section 59-101-187.

Finding #4: State law or regulations do not contain explicit principles of employee public service, such as their fiduciary duty to protect the public interest.

Recommendation #4: The General Assembly should consider formally establishing explicit principles of public service, such as a fiduciary duty to protect the public interest, to reinforce state employees having an affirmative duty to consider these principles when making discretionary decisions in the public's best interest, most notably protecting the public trust (i.e., avoid even the appearance of impropriety) and be a good steward of taxpayer funds (i.e., taxpayer value).

Finding #5: The M-BoT review is the third SIG review involving the use of funds by an institution of higher learning from its affiliated charitable non-profit with questionable consideration of the opportunity costs of those same funds being used for higher priority mission needs.

Recommendation #5: The SIG will refocus the Commission on Higher Education's initial request to now examine the management controls of the general use of affiliated non-profit funds at Clemson University and the University of South Carolina, which will also include review of their BoT's spending policies.

LIST OF APPENDICES

- A. Letter from the South Carolina Commission on Higher Education to the State Inspector General, dated 9/2/2016;
- B. Post & Courier Newspaper, Charleston, South Carolina, newspaper article, dated 8/25/2016, and an editorial, date 8/29/2016;
- C. Appropriations Proviso 117.20(A): re exception for travel expenses at institutions of higher learning; and (E): travel reimbursements are governed by the rates provided in paragraphs A and I;
- D. SC Code of Laws Section 59-101-187. Events recognizing academic and research excellence; funding sources; and noteworthy accomplishments of members of the faculty and staff, students, and distinguished guests of the institution; and
- E. Sensitivity Analysis Comparison of M-BoT's Travel Policies with Government Travel Benchmarks.