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Audits reveal concerns at Winthrop, state restricts some spending authority

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The Courtyard at Winthrop apartments. A state audit has raised concerns about how Winthrop and the private foundation that built the apartments.

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State leaders have temporarily restricted some of Winthrop University's spending authority after a financial audit revealed several concerns, including a contract with a private foundation to manage a student apartment building.

The issues include Winthrop spending \$4.5 million on an administrative computing system without soliciting competitive bids and the university's on-going management of an apartment complex constructed 10 years ago by a related foundation, according to the audit, which covered 2007 to 2010.

The audit also cited an instance of employee fraud that surfaced in 2010 after a staff member stole more than \$200,000. Winthrop investigated, the employee was prosecuted, and the school implemented stronger theft prevention measures. The employee is in prison.

Winthrop had checks and balances in place to reveal "any newly hatched fraud schemes," said Rebecca Masters, university spokeswoman.

"Winthrop's key concern is that the foundation housing construction and management agreement originated a decade ago, not in the audit period," Masters said. "So we're left to wonder why they are issues now."

Winthrop is now researching its appeal options, she said.

The university is unhappy particularly, Masters said, with the "reach-back and criticism" in the audit related to The Courtyard, a student apartment complex built by the Winthrop University Real Estate Foundation in 2002.

The foundation, a non-profit group established in 1999, built the apartments on land donated by Springs Industries, Inc.

Construction of the complex cost \$18.9 million, the audit report states.

Under its agreement with the foundation, Winthrop--a state-supported school--manages the townhouse-style apartment building that houses students only.

State officials who prepared the most recent audit say that Winthrop did not follow South Carolina's procurement code, which dictate how all public institutions spend money and award contracts to vendors.

Winthrop's agreement to manage The Courtyard and the school's role in the construction and design of the building, the audit states, effectively amounted to "acquisition" of the complex.

"Acquisitions of major capital projects, however creatively they may be structured," must follow the state's procurement code and provide for competitive bids, the audit states.

Winthrop did not knowingly or intentionally fail to follow the state code, according to the audit report, but "effectively acquired the beneficial use" of the Courtyard to meet its students' needs.

Audit findings

Among the audits findings are that Winthrop:

- "Acquired" the Courtyard because of its management agreement and participation in the design and construction phases, which makes it subject to the state procurement code.
- Used the Courtyard to replace, in part, existing student housing facilities and transferred students to the apartments from university-owned housing
- Agreed to treat the Courtyard "as its own" and to not build competing facilities until the Courtyard's construction debt is paid
- Collects rent and safety deposit money from students and returns part of the money to the foundation.
- Pays for the Courtyard's operation and maintenance from rent dollars

Punishment means 'more bureaucracy'

In response to the audit, the Budget and Control Board cut back for one year Winthrop's individual spending power on supplies and services, information technology and consultant services. Lowering a state agency's spending power requires more oversight from state officials and limits how much money an institution can spend directly on its own.

The university's ability to spend money on its own for consultant costs and supplies and services was cut from \$200,000 to \$100,000. Winthrop's spending power on information technology purchases has been reduced from \$200,000 to \$25,000.

If the school wants to exceed those limits, it must be approved by the state.

The reduced authority, Masters said, "will mean more bureaucracy in regard to some purchases, creating delays and additional work and travel to Columbia for university staff, the cost of which is never taken into account in such matters."

Construction of The Courtyard, she said, is not subject to state procurement code because it was built by a private foundation and neither Winthrop nor the state owns the land or the apartment complex.

No taxpayer dollars or money from student tuition was used to build The Courtyard.

Winthrop defines its involvement as managing the Courtyard while the audit report states the university "acquired the construction and beneficial use" of the apartment building when it signed the management agreement.

The disagreement and punishment are the result of the state Division of Procurement wanting "to stop all foundations related to public universities from providing similar assistance in facilities construction," Masters said.

That intent was made known, Masters said, when the state procurement office called a January meeting with bond attorneys from around the state who usually serve the foundations on construction projects.

The procurement division falls under the office of the Budget and Control Board. The board has five members: Gov. Nikki Haley, state Treasurer Curtis Loftis; state Comptroller General Richard Eckstrom; Senate Finance Committee Chairman Hugh Leatherman; and House Ways and Means Committee Chairman Brian White.

The board's decision is not meant to pressure colleges from receiving private assistance and it is not "uncommon" for foundations to help public universities pay for construction projects, said Lindsey Kremlick, public information officer for the Budget and Control Board.

The board does not consider Winthrop's foundation to be a state agency, Kremlick said.

Treasurer speaks against punishment

The decision to take away some of Winthrop's purchasing power is likely to "handcuff" the university's new administration, said Loftis, the state treasurer.

Winthrop will transition in June from the leadership of long-time President Anthony DiGiorgio to a new president who has not yet been chosen.

During the January meeting in Columbia, Loftis was the only board member to speak in favor of not punishing Winthrop based on its financial audit.

The board gave unanimous approval to reduce Winthrop's authority.

"We have a lot of problems when it comes to spending in state government," Loftis said. "Of all the things that we have going on, Winthrop is one of the fewest concerns that I have."

Winthrop, Loftis said, has "acknowledged their problems" since becoming aware of spending issues.

Also, punishing Winthrop for an apartment building constructed 10 years ago bothered him, Loftis said.

Spending audits are performed every three years on public universities and colleges.

"By virtue of the fact they're not annual, they'll always be older findings," said Richard Eckstrom, the state comptroller general.

Winthrop needs to "rest less on its laurels," Eckstrom said during the Jan. 29 meeting.

Masters attended the board's meeting in Columbia, asking the board members not to punish the school for things that were done in "good faith."

"We understand (foundation activity is) a statewide issue but only Winthrop is being singled out," she said.

'Making an example' out of Winthrop

The board cut Coastal Carolina University's spending authority in similar fashion in 2008, saying the school violated the state code when it entered a management agreement with its student housing foundation and bypassed the state's procurement process.

Winthrop is being punished differently than Coastal was, Masters said, and the Budget and Control Board's decision sets a precedent in S.C.

A key difference in the punishments, Masters said, is that the board took issue with the management agreement in Coastal's case and took issue with the actual construction in Winthrop's case.

"Winthrop and (the foundation) now have reason to believe that state procurement officials are making an example of Winthrop for their own purposes," Masters said.

Private foundation projects are "outside state procurement authority," she said, which is the reason procurement officials want to "pressure" colleges from accepting foundation assistance.

Eckstrom, the comptroller general, "is not aware of any attempt by the board to send any kind of disguised message," said Eric Ward, public information director for Eckstrom's office.

The Courtyard issue, he said, was not the only part of the audit report that concerned Eckstrom.

All "deficiencies" concerned him and "collectively influenced his view of the report," Ward said.

Rob Godfrey, a spokesman for Governor Nikki Haley, said the governor expects all state entities to follow procurement codes.

"Winthrop and its foundation were advised to follow the code by a state procurement officer and the governor supports the State Procurement Division's recommendation that limits be lowered for 12 months," Godfrey said.

Winthrop avoided spike in tuition cost

The university's authority on technology purchases was initially reduced in 2008 from \$200,000 to \$25,000 after Winthrop spent \$4.5 million on software without soliciting competitive bids.

The state's chief procurement officer sent a letter reprimanding Winthrop in 2008, saying its purchase "grossly exceeded" its spending limits and the technology purchase was not an emergency, as Winthrop claimed.

State law allows public universities to bypass the bid process if the purchase is an emergency or if there is only one suitable vendor or manufacturer.

Winthrop was able to save money by "moving expeditiously" on the software purchase, Masters said.

The software company decided to no longer service Winthrop's older system and had plans to increase the purchase price of a new system by \$1 million.

Winthrop needed to move quickly in order to avoid "technological failure" that would have affected alumni degree records, current student credit records and personnel and financial records, Masters said.

If Winthrop had waited, she said, the university would have been forced to use tax dollars or tuition money to support the price increase. The result could have meant raising tuition by about \$230 more per year for every student.

The Citadel and the College of Charleston were also facing the same expiration of their software systems between 2007 and 2008, according to the audit report. The other colleges, according to the audit, put out competitive bids for the technology purchase.

Winthrop was told its lower price would allow other state institutions to save money as well, Masters said, which wouldn't have been possible if Winthrop had not made a "sole source procurement."

Local impact of board's decision

The Budget and Control Board's punishment relating to the foundation's Courtyard construction could complicate Winthrop's role in Rock Hill's economic development, Masters said.

On Winthrop's behalf, she said, the foundation "could be a very efficient mechanism for some envisioned segments of Knowledge Park."

"Knowledge Park" includes a jobs initiative as part of the city of Rock Hill's downtown economic development plan.

Future growth of the campus, President Anthony DiGiorgio has said, could include putting student housing near downtown. The university also plans to occupy space on the first level of a new apartment building slated to be built at the former Woolworth store on East Main Street.

"Overall, Winthrop folks involved in this matter feel that everyone has acted in the most responsible and common-sense way possible, and that (the foundation) has done the same," Masters said.

The audit report covers "the most challenging time in Winthrop's history" —including the Great Recession and losing 50 percent of the university's state funding, she said.

"Winthrop long ago declared that there is no finish line on improving quality in everything we do," Masters said.

"We have and will continue to work with state officials in that regard, but feel this audit report was less focused on that objective than sending a larger message to other institutions."

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