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University of South Carolina

BOARD OF TRUSTEES

Fiscal Policy Committee

February 9, 2007

The Fiscal Policy Committee of the University of South Carolina Board of Trustees met on Friday, February 9, 2007, at 10:30 a.m. in the 1600 Hampton Street Board Room.

Members present were: Mr. Eugene P. Warr, Jr., Chairman; Mr. John W. Fields; Mr. John C. von Lehe, Jr.; Mr. Othniel H. Wienges, Jr.; Mr. Herbert C. Adams, Board Chairman; and Mr. Miles Loadholt, Board Vice Chairman. Members absent were: Ms. Darla D. Moore; Mr. Michael J. Mungo; and Mr. Mack I. Whittle, Jr. Other Trustees present were: Mr. William L. Bethea, Jr.; Mr. James Bradley; Mr. John W. Fields; Mr. William C. Hubbard; and Mr. M. Wayne Staton.

Others present were: President Andrew A. Sorensen; Secretary Thomas L. Stepp; Vice President and Chief Financial Officer Richard W. Kelly; Vice President for University Advancement Brad Choate; Vice Provost and Executive Dean for Regional Campuses and Continuing Education Chris P. Plyler; Vice President for Information Technology and Chief Information Officer William F. Hogue; Vice President for Human Resources Jane M. Jameson; General Counsel Walter (Terry) H. Parham; Associate Provost for Budget and Operations William T. Moore; Dean of USC Lancaster John Catalano; USC Aiken, Vice Chancellor of Business and Finance Virginia S. Hudock; Assistant Treasurer Susan D. Hanna; Director of the Department of Internal Audit Alton McCoy; Director of Office of Business Helen Zeigler; Director of Financial Services and Bursar Joseph Taylor; University Legislative Liaison John D. Gregory; Director of Finance and Budget William P. Bragdon; Controller Patrick M. Lardner; Director of CarolinaCard Lynne Mack; CarolinaCard Office Manager Melissa Ostmeyer; Director of University Communications, Division of University Advancement, Russ McKinney, Jr.; Board staff members Terri Saxon, Vera Stone, Karen Tweedy; and members of the press.

Chairman Warr called the meeting to order, welcomed everyone, and asked Board members to introduce themselves. Mr. McKinney introduced the members of the media who were in attendance.

Chairman Warr stated that notice of the meeting had been posted and the press notified as required by the Freedom of Information Act; the agenda and supporting

materials had been circulated to the Committee; and a quorum was present to conduct business.

I. Audit Tracking Report: Chairman Warr called on Mr. McCoy who reported that nine outstanding audits had been resolved since the last meeting. There was one finding unresolved in the CarolinaCard Audit and it would take several months before the reconciliation process could be worked out completely; work was fully underway to resolve this finding.

II. Internal Audits:

A. USC Aiken NCAA: Chairman Warr called on Mr. McCoy who reported that the NCAA had mandated audits of all athletics departments across the country that had revenues over \$300,000 a year. The audit would be conducted every three years; this was the third year for USC Aiken and USC Upstate.

Mr. McCoy stated that there were three audit findings for USC Aiken Athletics Department: Financial Statement Reconciliations, Fee Waivers Reconciliation, and Budget Transfers. Mr. McCoy stated that the financial statements prepared by the Athletics Department did not reconcile to the University's general ledger. In addition, an expense category was used to transfer budgets rather than actual budget entries; therefore, the transfers did not reconcile with the University's general ledger.

Mr. McCoy stated that USC Aiken held three rodeos per year. However, the auditors were unable to conduct an audit of the accounting records for the USC Aiken Baseball Fund Raising Rodeo. Arrangements had been made with Global Spectrum to manage all the financial aspects of the rodeos in the future, and the University would have complete accountability of those records.

President Sorensen stated that he had discussed this at length with the Chancellor and there was a highly irregular arrangement that was in place and he was in full concurrence that this process needed to be changed drastically. This new arrangement with Global Spectrum would indeed correct previous problems.

B. USC Upstate NCAA: Mr. McCoy stated that there were no audit findings. A statement of revenues and expenses was included in the audit report.

C. Facility Services: Mr. McCoy stated that there were four audit findings for the Facility Services Department. The findings involved some misappropriated assets, excessive overtime, and several procurements that were not handled in accordance with the Consolidated Procurement Code. Facility Services Inventory was different from the actual physical count of inventory on hand and the recorded inventory reported per the FAMIS inventory system.

Mr. McCoy stated that the Department appeared to have been splitting purchase orders to "get around" the threshold limit for competitive bids.

The Department concurred with the findings and efforts were underway to resolve these findings and to comply with established policies and procedures.

D. College of Engineering and Information Technology: Mr. McCoy reported that there were two minor audit findings for this College. The College had a continuing education account which was set up as a separate account in an "E" fund rather than an "A" fund and salaries were not being charged to the account. A portion of salaries for employees who provided a substantial amount of direct administrative support should have been charged to the "E" fund account.

Mr. McCoy reported that the second audit finding dealt with invoices. The department had billed outside entities for registration fees and services. The invoices were prepared in-house, were not pre-numbered, and were not posted to the University's accounts receivable system. To increase internal controls, invoices should be handled by someone other than the employee who prepared the invoice, and the department should use Financial Services to obtain blank University-issued invoices to use in billing an outside entity.

The department concurred with the findings and agreed to comply with the auditors' recommendations.

E. Coleman Karesh Law Library: Mr. McCoy reported that there were two audit findings that required further action by management. The first audit finding regarded E400 Salaries. E400 Salaries were used to account for all revenues and expenses attributed to photo duplication, faxes, and other research and billable services provided to patrons of the Law Library. A review of expenses for this account revealed that a considerable amount of work was done that could have been charged to this account, yet no salaries were being charged.

Management concurred with the finding and took appropriate action to charge the E400 a portion of salaries for employees who worked to make photocopies that generated revenue in this account.

The second audit finding regarded insurance. Mr. McCoy stated that the contents of the entire Law Center building were presently insured at \$2.1 million and the contents were worth approximately \$52 million. Mr. McCoy stated that administration was in the process of evaluating the entire coverage of insurance on campus. Management would work with the Risk Management division to determine the appropriate amount of insurance coverage for the Law Library and the Law Center building and would increase the coverage as deemed appropriate.

Chairman Warr requested that Mr. Kelly give a brief update of the status of the Law Library insurance coverage.

Mr. Kelly stated that the contents of the entire Law Center building were presently insured at \$2.1 million. Using an industry standard of \$100 per volume

and an on-hand volume count of 525,881 the replacement cost for the Law Library stacks alone would cost \$52,588,100.

Mr. Kelly stated that this insurance was purchased through the State Insurance Reserve Fund at a cost of \$16,000 a year. The administration had decided against paying that cost per year simply because the contents in the Library were not rare books, but were working books for educational purposes and were also available on-line.

Mr. Kelly stated that the Executive Committee had requested a complete report on insuring rare books and art items, and a briefing on the insurance program would be presented during that committee meeting. The Law Library had approximately \$800,000 worth of rare books that were not a part of the University's current insurance coverage.

Chairman Warr stated that the report was received for information.

F. USC Columbia Cash Receipts: Mr. McCoy stated that the auditors performed individual audits of the cash receipting functions for twenty of the largest revenue generating departments on the Columbia campus. Some of the findings were specific to one department, and a majority of noted exceptions were the result of personnel not following cash receipting guidelines established by Financial Services.

III. Audits & Financial Reports Previously Distributed to Full Board:

Chairman Warr asked members if they had any questions or comments regarding the following two previously issued audits:

- A. USC School of Medicine Educational Trust for the years ended December 31, 2005 and 2004.
- B. USC Department of Athletics - Columbia Campus for the year ended June 30, 2006.

There were no questions or comments regarding the two audits.

Since there were no other matters to come before the Committee, Chairman Warr declared the meeting adjourned at 11:00 a.m.

Respectfully submitted,

Thomas L. Stepp  
Secretary