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University of South Carolina

BOARD OF TRUSTEES

Fiscal Policy Committee

October 27, 2005

The Fiscal Policy Committee of the University of South Carolina Board of Trustees met on Thursday, October 27, 2005 at 10:30 a.m. in the Capstone House Campus Room.

Members present were: Mr. Michael J. Mungo, Presiding; Ms. Rita M. McKinney; Ms. Darla D. Moore; Mr. John C. von Lehe, Jr.; Mr. Eugene P. Warr, Jr.; Mr. Mack I. Whittle, Jr.; Mr. Herbert C. Adams, Board Chairman; and Mr. Miles Loadholt, Board Vice Chairman. Mr. Othniel H. Wienges, Jr. was absent. Other Trustees present were: Mr. James Bradley; Mr. William C. Hubbard; Mr. William W. Jones, Jr.; and Mr. Toney J. Lister.

Others present were: President Andrew A. Sorensen; Secretary Thomas L. Stepp; Executive Vice President for Academic Affairs and Provost Mark P. Becker; Vice President and Chief Financial Officer Richard W. Kelly; Vice President for Information Technology and Chief Information Officer William F. Hogue; Vice President for Advancement T.W. Hudson Akin; Vice President for Student Affairs Dennis A. Pruitt; General Counsel Walter (Terry) H. Parham; Vice Provost and Executive Dean for Regional Campuses and Continuing Education Chris P. Plyler; Chancellor of USC Aiken Thomas L. Hallman; Dean of USC Lancaster John Catalano; Dean of the College of Nursing Peggy O. Hewlett; Dean of the Arnold School of Public Health Donna L. Richter; Associate Dean of Administration and Finance, School of Medicine, Brian J. Jowers; Director of Athletics Eric C. Hyman; Senior Associate Athletic Director for Business and Development Brad Edwards; Assistant Treasurer Susan D. Hanna; Director of the Department of Internal Audit Alton McCoy; Budget Director, Office of Business and Finance, Leslie Brunelli; Assistant to the Vice President, Division of Business and Finance, Ken Corbett; Chief Financial Officer, Office of Foundations, Russell H. Meekins; Director of the Development Foundation Richard H. Rockafellow; Business Manager for the College of Social Work Beverly L. Simmons; Deputy Director of Vehicle Management and Parking Services Derrick E. Huggins; Professor in the College of Social Work Terry Tirrito; Certified Public Accountant with Derrick Stubbs & Stith LLP Chuck Statler; Public Information Officer, Office of Media Relations, Karen Petit; Director of University Communications, Division of University Advancement, Russ McKinney, Jr.

Mr. Mungo called the meeting to order and welcomed everyone present. Mr. McKinney indicated that no members of the media were in attendance.

Mr. Mungo 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.

Mr. Mungo stated that the first order of business would be to elect a chairman for this committee.

I. Committee Election of Committee Chair: Mr. Mungo opened the floor for nominations for a committee chair. Ms. Moore nominated Mr. Warr and moved that the nominations be closed and that Mr. Warr be elected Chairman by acclamation. Mr. Bradley seconded the motion. The vote was taken, and the motion carried.

Mr. Mungo congratulated Mr. Warr and handed the gavel to Mr. Warr who thanked the Committee for this honor.

II. Audit Tracking Report: Chairman Warr called on Mr. McCoy who reported that there were five audits more than six months old; however, as of today, all had been resolved with the exception of Computer Services.

Chairman Warr stated that this report was received as information.

III. Internal Audits:

A. Athletics: Chairman Warr called on Mr. McCoy who reported that, at the request of President Sorensen, the Athletics Department was on a three year audit schedule. A comprehensive audit of the Athletics Department had been conducted and there were fourteen audit findings.

1. Audit Finding #1 - Ticket Reconciliation Report: The audit revealed that better accountability of unsold tickets was needed. The reconciliation report which accounted for all received and sold football tickets indicated that there were 4,158 unsold season tickets on hand.

Mr. McCoy stated that management would address this problem and would take proper safeguards by purchasing a new software package.

In addition, Mr. Stepp advised that he had talked with the Director of the Athletics Department about scheduling a called meeting of the Executive Committee within the upcoming week to approve a contract for the purchase of a new ticketing system.

2. Audit Finding #2 - Unsigned Contracts: Mr. McCoy reported that the University was in its third year of a contract with Learfield Communications and in the final months of the original three year working agreement with Global Spectrum without having a signed contract. Mr. McCoy reported that

these contracts had been forwarded to the Legal Department for review and final execution.

3. Audit Finding #3 - Onewood Farms: Mr. McCoy reported that this contract exceeded \$250,000 and had not received approval from the Executive Committee of the Board of Trustees as required by University policy.

4. Audit Finding #4 - Contracts Authorized by Athletics: Mr. McCoy reported that the University policy BTRU 1.04, "Authority to Sign Contracts" delegated the authority to the Athletics Director to "sign agreements engaging the University to participate in intercollegiate athletic contests provided a duplicate of the agreements were deposited in the Legal Department not less than fifteen days from the date of execution." Mr. McCoy reported that the Russell Athletic contract exceeded \$250,000 and had not received the appropriate approvals as required by University policy.

5. Audit Finding #5 - Signed Contracts Under Dispute: Mr. McCoy reported that the disagreement with Action Sports Media regarding the "founding partners" section of the contract had not been resolved and was being carried as an unresolved finding on the Fiscal Policy Committee tracking report.

The department had brought this matter to the attention of the Legal Department for review.

6. Audit Finding #6 - Gamecock Sports Properties: Mr. McCoy reported that all revenues and expenses should be properly recognized and recorded in the University's accounting records. Gamecock Properties had been granted certain multi-media rights and had generated \$1,800,000 in guaranteed payments for FY 2003-2004. The guaranteed payment and the related payments to the coaches and other deductions should be recorded at full value on the University's accounting records.

7. Audit Finding #7 - Personnel Payments: Mr. McCoy reported that in one instance the Athletics Department had not been in compliance with the University policy related to personnel payments. Administrative approval of a coach's salary increase had exceeded the \$250,000 limit; however, the requisite Executive Committee approval had not been obtained.

8. Audit Finding #8 - Travel Advances: Mr. McCoy reported that \$4,329 in outstanding travel advances had not been justified.

9. Audit Finding #9 - Ticket Office Cash Collections: Mr. McCoy explained that the Ticket Office served as the central depository for all Athletics Department collections. The audit revealed that the Ticket Office did not issue cash receipts or signed transferals of accountability to all departments submitting money for deposit. Mr. McCoy stressed the importance of evidencing all

transfers with either cash receipts or signed deposit transmittals in order to maintain appropriate control.

10. Audit Finding #10 - General Cash Receipting: Mr. McCoy stated that the processing of cash receipts in units other than the Ticket Office was generally weak. It was recommended that all employees handling cash be made aware of the appropriate University policy regarding this process and that cash collections from athletic events and activities be reconciled to the list of participants and other records of accountability.

11. Audit Finding #11 - Coaches Clinic: Mr. McCoy advised that the department was not in compliance with University policies regarding Purchasing and Receipt and Handling of University Payments. A reconciliation of event participants to collections noted a \$200 cash payment to a guest speaker from cash money received at the door; \$15,000 in entry fees collected at the door was not deposited until three weeks after the event because an account had not been established.

It was recommended that funds should be deposited into a holding account and subsequently transferred at a later date.

12. Audit Finding #12 - Olympic Sport Cash Receipts: Mr. McCoy stated that a review of cash receipting procedures for Olympic sports events had revealed several major internal control weaknesses. Mr. McCoy summarized the audit findings and recommendations to correct the deficiencies.

13. Audit Finding #13 - Procurements: Mr. McCoy reported that the Athletics Department was exempt from the state's procurement laws except in the area of construction. The department was unable to provide documentation for two purchases involving construction projects: (1) a \$61,807 procurement for adding braces to the upper deck at Williams-Brice Stadium, and (2) a \$98,481 procurement for the fabrication and installation of bleachers in the practice facility.

14. Audit Finding #14 - Athletic Foundation Account: Mr. McCoy reported that an audit of the Athletics Department Foundation account noted that a single family had donated most of the funds. A review of expenditures revealed that the account was used to refurbish property owned by the primary donor who leased the property to the University for \$6,000 a month in addition to any other expenses incurred.

Mr. McCoy stated that the IRS required non-profit organizations receiving donations to provide a written acknowledgement of the gift and a "description and good faith estimate of the value of goods or services, if any, that organization provided in return for the contribution." In return for the above gifts, the donor

received approximately \$132,500 in additions and upgrades to real property owned by the donor during calendar year 2004.

It was understood that the donor had not received a tax form or letter indicating that their contribution should be reduced by the value they received from the donation. Mr. McCoy requested that the legal department hire a tax professional to determine if the donor should have received a 1099 or other tax document and if the University had acted appropriately.

A question was raised regarding the grading system of audits. Mr. McCoy responded that audits were generally not graded based on the initial reports. They were rated in the tracking report and were considered either acceptable or unacceptable and fell within two ranges of "significant" or "beneficial" findings. Mr. McCoy stated that he will develop an alternate format for consideration at the next scheduled meeting.

Chairman Warr stated that the audit was received for information.

B. College of Nursing: Mr. McCoy reported that he had met with Dean Peggy Hewlett, the new dean of the College of Nursing. The College was in compliance with relevant policies and procedures and sound internal controls. There were several minor exceptions which were brought to the attention of management and resolved during the audit.

Chairman Warr stated that the audit was received for information.

C. College of Social Work: Mr. McCoy stated that there were four audit findings in the areas of expenses, cash receipts, deposits, equipment, continuing education, and other selected business practices and controls.

1. Audit Finding #1 - Cash Receipts: Mr. McCoy stated that the audit had revealed minor cash receipting violations. It was recommended that staff gain a thorough understanding of University policies in this area and that management assign duties to employees involved in the process to ensure that no single employee had total responsibility for the entire cash receipting process.

2. Audit Finding #2 - Continuing Education: Mr. McCoy reported that cash receipts for Continuing Education activities were not being cross-referenced to corresponding registration documents in order to establish an audit trail. In addition, there was no evidence that a sign-in log documenting actual attendance by conference participants was being maintained.

3. Audit Finding #3 - Graduate Assistantships: Mr. McCoy reported that the college did not have an internal policy stating the criteria used to award graduate assistantships. It was recommended that the college develop an internal policy to be incorporated into its policies and procedures manual.

Mr. Mungo recommended that the University establish uniform campus wide requirements for the awarding of graduate assistantships.

Ms. McKinney asked whether the Human Resources Department was involved in the distribution of graduate assistantships. Mr. McCoy responded that the Division of Human Resources was involved only in the disbursement of funds to students during a semester.

Dr. Becker stated that assistantships were administered through the usual University processes; however, assistantship decisions were determined by the academic units awarding them. The particular responsibilities and compensation levels varied widely.

President Sorensen requested that Dr. Becker report on uniformity criteria at the next meeting.

4. Audit Finding #4 - Space Allocation Plan: Mr. McCoy reported that the department was underutilizing office space which had been assigned to retired/part-time faculty and staff; this practice could result in less than ideal workspace environments for active faculty and staff. It was recommended that the department should best utilize the space available to the college.

Chairman Warr stated that this audit was received for information.

D. Arnold School of Public Health: Mr. McCoy reported that the school was audited in the areas of cash, revenues, expenses, cash receipts, budgets and equipment. He reported on the following six audit findings:

1. Audit Finding #1 - Purchasing Cards: Mr. McCoy stated that the department was not in compliance with the University's policy on purchasing cards. Greater care should be taken to ensure purchases were reallocated to the appropriate object code and use tax was assessed on purchases when appropriate. He stressed that membership dues should be properly authorized and any rebates offered should be claimed and deposited into University accounts.

2. Audit Finding #2 - Cash Receipting: Mr. McCoy stated that there were delays in deposits in all receipting locations in the Department of Exercise Science.

3. Audit Finding #3 - Fit Place: Mr. McCoy recommended that management consider assigning an employee instead of a student to handle receipting in this area.

4. Audit Finding #4 - Direct Costs of Program: Mr. McCoy stated that, as approved by the Board, the Department of Health Services and Policy Management had begun offering a Ph.D. in Health Administration in Taiwan. This program was self-supporting; however, the audit revealed that the department needed to establish procedures to ensure that all fees collected were deposited into the appropriate University account.

5. Audit Finding #5 - Changes to Contracts: Mr. McCoy reported that the contract with the company in Taiwan required them to provide

housing for faculty teaching in Taiwan and to split equally refreshment costs for participants. The audit revealed that one faculty member was paid from program funds and that the University had covered the cost of refreshment fees. It was recommended that the department adhere to the original signed contract or amend the contract to reflect the current operation of the program.

6. Audit Finding #6 - Accounts Receivable: Mr. McCoy stated that the Taiwan program has three billing periods. At issue was the proper procedure for handling outstanding invoices at the end of the year. It was recommended that the department contact the Bursar's Office to determine the best way to handle this matter.

Chairman Warr stated that this audit was received for information.

IV. Questions or Comments on Educational Trust Audit - School of Medicine:

There were no questions or comments from Committee members regarding this agenda item.

Chairman Warr stated that this audit was received for information.

V. Policy on Endowment Reporting: Chairman Warr called on Mr. Kelly who reported that the University was consistent with the principles and guidelines set forth in the Financial Accounting and Reporting Manual for Higher Education (FASB) regarding endowment reporting. This manual was published by the National Association of College and University Business Officers (NACUBO). In addition, the University adhered to the standards set by the Governmental Accounting Standards Board (GASB) for endowment accounting and reporting.

The Board had been provided a copy of the process that the University would use for endowment accounting and reporting and outlined endowment definitions and classifications. Mr. Kelly stated that the Assistant Treasurer, Controller's Office and the Auditor's Office would periodically review the process and test to ensure that the University was following consistent standards for evaluations and recording. He further stated that all endowment reporting statements from the University or associated organizations would be prepared in accordance with the process as distributed with the materials for this meeting.

Since there were no other matters to come before the Committee, Chairman Warr declared the meeting adjourned at 11:30 a.m.

Respectfully submitted,

Thomas L. Stepp
Secretary