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University of South Carolina

BOARD OF TRUSTEES

Fiscal Policy Committee

February 23, 2006

The Fiscal Policy Committee of the University of South Carolina Board of Trustees met on Thursday, February 23, 2006, at 10:05 a.m. in the 1600 Hampton Street Board Room.

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

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; Interim Vice President for University Advancement Michelle Dodenhoff; Vice President for Student Affairs Dennis A. Pruitt; Vice President for Human Resources Jane M. Jameson; General Counsel Walter (Terry) H. Parham; Vice Provost and Executive Dean for Regional Campuses and Continuing Education Chris P. Plyler; Chancellor of USC Beaufort Jane Upshaw; Dean of USC Lancaster John Catalano; Vice Chancellor for Finance and Operations, USC Beaufort, Bryan Hill; Assistant Treasurer Susan D. Hanna; Director of the Department of Internal Audit Alton McCoy; Director of Finance and Budget William P. Bragdon; Assistant to the Vice President, Division of Business and Finance, Ken Corbett; Director of Business Helen Zeigler; Director of Facilities Planning and Operations Joseph O. Rogers III; Director of Campus Planning and Construction and University Architect Charles G. Jeffcoat; Executive Assistant of Campus Planning and Construction Donna T. Collins; Executive Director of Advancement Administration J. Cantey Health, Jr.; Director of Financial Reporting John Campbell; Director of CarolinaCard, Division of Business and Finance, Sidney Kenyon; USC Controller Patrick M. Lardner; Senior Director of Advancement Services, Division of University Advancement, Darla E. Smith; Public Information Officer, Office of Media Relations, Karen Petit; Director of University Communications, Division of University Advancement, Russ McKinney, Jr.; and a member of the press.

Chairman Warr called the meeting to order, welcomed everyone, commented on the new Board Room, and asked Board members to introduce themselves. Mr. McKinney introduced a member of the media who was 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 there were only two audits over six months old with outstanding findings: the Colonial Center and the Department of Athletics. The Colonial Center audit had two findings which were both resolved. In the first instance, Athletics had agreed to transfer money from Global Spectrum to the food vendor this fiscal year to resolve a settlement mistake. The second item concerned a disagreement regarding the "founding partners" section of the Action Sports Media contract; Terry Parham had assured him yesterday that the issue would be corrected.

Mr. McCoy stated that Athletics currently had four outstanding findings and were progressing quickly toward resolving them. The first issue involved the need for better accountability of unsold tickets; the second matter concerned the "founding partner's" issue covered in the Colonial Center discussion, but included in Athletics because the Athletics Department managed the Colonial Center; the third issue, outstanding travel advances, was being resolved by the new Athletics budget director. The fourth finding involved Athletics using departmental cash receipts in violation of the University's policy. He stated that Athletics had agreed this week to transfer receipts to the Bursar's Office.

Mr. McCoy asked for any questions. Mr. Von Lehe was pleased with the rapid pace at which the Athletics Department was making these corrections; Dr. Sorensen concurred.

II. Internal Audits:

A. Advancement: Mr. McCoy stated that there were six findings.

1. Audit Finding #1 - IRS Disclosure: Mr. McCoy explained that this finding revealed that donors who contributed a specific amount of money were given the opportunity to purchase season athletics tickets in a designated location. He said that, according to the IRS, if the donor was offered ticket location privileges then only 80 percent of that donation was deductible. He added that the Development Office had agreed to notify those donors of that fact in the future.

2. Audit Finding #2 - Complimentary Tickets: Mr. McCoy stated that the Advancement Division received 126 complimentary season football tickets to use for donor development; however, adequate control of their dissemination was not maintained. Advancement had agreed to put into place new procedures to manage ticket distribution better.

3. Audit Finding #3 - Loaner Cars: Mr. McCoy reported that the third audit finding revealed that two employees were using dealer loaner cars for business and personal use in exchange for the dealership's being allowed to purchase President's Council season football tickets. He noted that Advancement had agreed to discontinue the practice. Mr. von Lehe did not agree with Advancement's response of waiting until June 30, 2006, to discontinue this arrangement. He asked that it be discontinued immediately. Chairman Warr agreed that it should be discontinued and suggested that the

two employees be given until the first of March to return the vehicles to the dealership. Mr. McCoy noted that the University motor pool had vehicles available for business purposes, if needed.

4. Audit Finding #4 - Donated Software: Mr. McCoy stated that the fourth finding addressed donated software. He said that of the software examined, a total value of \$6.5 million was included as "in-kind" gifts. He explained that the Council for Advancement and Support of Education (CASE) Management did not allow the University to report software as "in-kind" gifts.

He further explained that Advancement had argued that they should not have to comply with CASE in this situation, since many peer institutions did not. Mr. McCoy clarified that the CASE standards were the only ones available to follow for auditing purposes; however, he understood Advancement's position.

Chairman Warr asked if the very nature and semi-ownership of the software would justify varying from the CASE standards. Mr. McCoy pointed out that the University did not "own" but rather "used" the software for a year at a time. He said that in theory it was maintained that software companies did not relinquish anything by allowing the University to use their software, they merely produced additional discs. Therefore, he concluded, the companies were not allowed to claim the transactions as deductions.

Dr. Sorensen advised that he had reviewed the CASE document and found logical inconsistencies within the guidelines. He had spoken to Mr. Martin Grenzebach, president of a national firm that advises Development and Foundation Offices, who has 30 years of experience in this area. Dr. Sorensen asked him to check with Carolina's peer institutions regarding the "use of" versus "receipt of" software. Mr. Grenzebach found that the University of North Carolina Chapel Hill, the University of Georgia, and the University of Florida also used standards not inconsistent with Carolina's. Dr. Sorensen suggested Mr. Grenzebach and Ms. Dodenhoff request CASE to resolve the lack of consistency in its guidelines. He also believed that the above mentioned institutions were reputable and that the University was following practices which were not inconsistent with theirs.

It was agreed that Ms. Dodenhoff would contact CASE regarding the inconsistencies in its guidelines.

5. Audit Finding #5 - Pledge Totals: Mr. McCoy stated that there was insufficient documentation of time scheduled pledges, and that some "conditional" pledges were reported as "unconditional" pledges. The department agreed to address this situation.

6. Audit Finding #6 - Internal Funding: Mr. McCoy noted that one "gift-in-kind" was never received and should not have been reported by Advancement since the University Research Foundation had already done so.

Dr. Sorensen stated that he had requested this audit because he was not comfortable with various procedures in the Division. He was pleased that the internal audit department was able to thoroughly review and recommend changes in this area, before the arrival of Mr. Brad Choate on March 1, 2006, as the new Vice President for University Advancement.

B. USC Beaufort:

Mr. Warr noted that Jane Upshaw and Bryan Hill were present if needed.

1. Audit Finding #1 - LIFE Scholarships
2. Audit Finding #2 - HOPE Scholarships
3. Audit Finding #3 - Refund Calculation

Mr. McCoy stated that the first three audit findings dealt with financial aid. He added that the Internal Audit Department conducted an extensive review of USCB's financial aid office. Since the audit, the three financial aid audit findings had been resolved.

4. Audit Finding #4 - Internal Controls: Mr. McCoy noted that USCB did not maintain adequate control of the Prichard's Island gift shop and reservations; however, since the audit, the campus had implemented new procedures for better accountability which should be in place before the Fiscal Policy Committee met again.

C. CarolinaCard Office: Mr. McCoy stated that the fairly new CarolinaCard Office produced ID cards which could be used, for example, to access dorms and to purchase meals and items from vending machines. Approximately \$12-\$13 million dollars passed through this office annually.

Mr. McCoy noted that the CarolinaCard Office had never been audited. Since its inception, that office had developed "home-grown" processes which Internal Audit reviewed with the intent of suggesting better accountability methods.

1. Audit Finding #1 - Liability Account Reconciliation: Mr. McCoy explained that the Card Office processed funds through a software accounting system which was separate from the University's General Ledger system, but that a reconciliation process to address this issue had been developed. In the future, accounts would be reconciled monthly.

2. Audit Finding #2 - Segregation of Duties: Mr. McCoy stated that the Card Office employed a small staff compared to the volume of money it processed. He explained that various duties will now be shared among employees, so that no one person will be totally accountable for all phases of a particular transaction.

3. Audit Finding #3 - Cash Receipts: Mr. McCoy stated that the Card Office had not been following USC policy regarding timely deposits. He noted that since the audit, a schedule had been established by which a police officer will escort a staff member to the USC depository daily.

4. Audit Finding #4 - Automatic Deposit Machine Collections: Mr. McCoy explained that there were Automatic Deposit Machines on campus which allowed students to post cash to their CarolinaCard accounts and that new procedures had been developed to ensure that the machines were emptied on a regular basis, the cash processed, and the deposits made in a timely manner.

Mr. McCoy noted that behind the audit report were financial statements and balance sheets which displayed the amount of money the Card Office earned and spent in a year.

C. Campus Planning and Construction: Mr. McCoy stated that three findings were cited in the Campus Planning and Construction audit.

1. Audit Finding #1 - Payment Applications: Mr. McCoy stated that in several instances the payment application had been incorrectly completed for in-progress construction projects, all of which had been corrected. He added that the department had agreed to review and correct the process.

2. Audit Finding #2 - Cash Balances/Private Gifts: Mr. McCoy stated that two projects had cash deficits, the School of Public Health building with slightly more than \$10 million and the Thomas Cooper Library with slightly more than \$1.2 million. He said that it was important that the accounts maintained positive cash balances in order to prevent the borrowing of money from other resources.

Discussion ensued about this matter. Mr. Kelly indicated that he did not disagree with the audit finding, but believed that the particular departments in question were managing and using their "cash" wisely. He advised that they had used their departmental "cash" before turning to another instrument. He further added that "it would not be uncommon for this University to use its "cash" balances before it issued bonds."

As for the School of Public Health project, Mr. Kelly said that they had a letter of credit they did not draw on because they were looking for capital improvement bonds from the state, which had not yet come about.

Mr. Kelly explained that, as for the Thomas Cooper Library project, private money was deposited into accounts which earned interest; however, the library used funds which did not earn interest. Mr. Kelly agreed with Mr. McCoy that "we need to understand exactly what we are doing and how we are doing it and his points are well taken on this."

3. Audit Finding #3 - Deficit Fund Balance: Mr. McCoy explained that an electrical upgrade project had exceeded its budget. He said that the department will transfer funds from another electrical project which was under budget and that the audit finding will be resolved once the monies were transferred.

III. Questions or Comments on Audits and Financial Reports Separately Distributed to Full Board:

- A. KPMG Audit of the University of South Carolina for Year Ended June 30, 2005
- B. Bond Indebtedness Report for Year Ended June 30, 2005
- C. Athletics Department Audit for Year Ended June 30, 2005

Chairman Warr asked if there were questions concerning the above reports. Mr. Stepp stated that these independent audits from the state were mailed directly to the Board, and were listed on the agenda in case Committee members had questions.

Ms. McKinney asked for a clarification of the reference to "business interruption insurance" on the Financial Report and noted that only "housing" was named. Mr. Kelly responded to her questions and indicated that he would follow up on her concerns.

Since there were no other matters to come before the Committee, Chairman Warr declared the meeting adjourned at 10:30 a.m.

Respectfully submitted,

Thomas L. Stepp
Secretary