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University of South Carolina

BOARD OF TRUSTEES

Fiscal Policy Committee

June 19, 2006

The Fiscal Policy Committee of the University of South Carolina Board of Trustees met on Monday, June 19, 2006, at 10:00 a.m. in the 1600 Hampton Street Board Room.

Members present were: Mr. Eugene P. Warr, Jr., Chairman; Mr. John W. Fields; 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. James Bradley; Mr. William C. Hubbard; 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 University Advancement Brad Choate; Vice President for Information Technology and Chief Information Officer William F. Hogue; Vice President for Student Affairs Dennis A. Pruitt; Vice President for Human Resources Jane M. Jameson; General Counsel Walter (Terry) H. Parham; Associate Provost for Budget and Operations William T. Moore; Associate Vice President of Research and Health Sciences Sonya F. Duhé; Chancellor of USC Aiken Thomas L. Hallman; USC Beaufort Executive Vice Chancellor for Academic Affairs Rayburn Barton; USC Beaufort Associate Professor J. Herman Blake; Assistant Treasurer Susan D. Hanna; Dean of the Arnold School of Public Health Donna L. Richter; Dean of University Libraries Paul A. Willis; University Libraries Director of Administrative Services C. J. Cambre, Jr.; Director of the Department of Internal Audit Alton McCoy; Director of Financial Services and Bursar Joseph Taylor; University Registrar Barbara R. Blaney; University Legislative Liaison John D. Gregory; USC Faculty Senate Chairman Eugene C. Reeder; Director of Finance and Budget William P. Bragdon; Director of Finance and Administration, Division of Research and Health Sciences, Edward Walton; USC Lancaster Public Information Officer Shana Funderburk; 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. Designated Fund Budget, FY 2006-2007:

Chairman Warr called on Mr. Kelly who explained that Designated Funds were revenues collected from auxiliary accounts. Mr. Kelly stated that the "Scholarships" line item under "Uses" had been increased by \$200,000. Mr. Stepp noted that the Designated Fund Budget was included in the full budget document for consideration by the Executive Committee.

Ms. McKinney moved to recommend the FY 06/07 Designated Fund Budget to the Executive Committee for inclusion in the University's FY 2007 Budget. Mr. Adams seconded the motion.

Dr. Sorensen expressed his gratitude for the \$200,000 increase in the "scholarships" line item. Ms. McKinney asked if the \$200,000 increase was a result of the growth of revenue at the USC Bookstore; and Mr. von Lehe asked if there was a reason the Bookstore was doing so much better. Mr. Kelly responded that the increased sales were due to: Barnes & Noble's (who operate the USC Bookstore) being completely focused on customer service; more USC faculty members placing their "book adoptions" with the bookstore; and first year students being allowed to pre-buy their books so they don't have to stand in line during orientation. He noted that the earlier the faculty members submit their book adoptions, the more time there is to market the books.

The vote was unanimous in favor of the motion.

II. Internal Audit Budget, FY 2006-2007:

Mr. Warr called on Mr. Stepp who explained that the Internal Budget flowed administratively through the Board of Trustees Office and that upon the Committee's approval, would be forwarded to the Executive Committee. He said that Mr. McCoy presented the FY 2006-2007 Internal Audit Budget with sufficient funds, which included a wise use of "carry-forward" monies, to operate the department at its continued high standards.

Mr. Adams moved to approve the FY 2006-2007 Internal Audit Budget, as recommended, for inclusion in the Executive Committee's budget presentation to the full Board. Ms. McKinney seconded the motion. The vote was taken, and the motion carried.

III. Audit Tracking Report:

Mr. Warr called on Mr. McCoy, who stated that the report included follow up actions on the findings over six months old for the Colonial Center, Athletics, USC-Beaufort, and

Carolina Card audits. He said they were continuing to work on the findings and hoped to have them resolved in the near future.

Mr. von Lehe questioned the "Anticipated Date to Fully Implement" of 6/30/05 for the Colonial Center outstanding audit finding. Mr. McCoy explained that the finding involved ongoing negotiations between USC and Action Sports regarding the "Founding Partners" provision, and that the Office of General Counsel was in the process of resolving the issue.

Following some discussion, Mr. Warr noted that the report was received as information and thanked Mr. McCoy.

IV. Internal Audits:

A. University Library System:

Mr. Warr recognized Mr. McCoy and noted that Dean Paul Willis was also present to respond to any questions.

1. Audit Finding #1 - Contracts: Mr. McCoy explained that this finding involved a statewide contract, which was bid by the State. The USC Library System forwarded their contract approval form, for USC's portion of \$500,000, to the Office of General Counsel prior to the contract's being awarded to Innovative Interfaces through the bid process. The Office of General Counsel returned the approval form due to incomplete information, and by administrative oversight, the Library System did not resubmit the form for approval prior to submitting a purchase requisition. This action resulted in the contract's not receiving General Counsel and Executive Committee approval, as required by University Policies and Procedures.

Mr. McCoy noted that the Innovative Interfaces contract would be considered by the Executive Committee later today.

2. Audit Finding #2 - Insurance: Mr. McCoy stated that the review of the Thomas Cooper Library and the South Caroliniana Library and their contents, and the contents of Special Collections and Rare Books, found that the insurance coverage was considerably lower than the buildings and contents values. He said that they encouraged the Library System's staff to work with the USC Risk Management staff to develop a risk analysis in order to determine the cost benefit of raising or maintaining the current level of insurance coverage; and they agreed to do so.

Mr. von Lehe asked Mr. McCoy if lack of insurance for Special Collections and Rare Books, valued at \$175 million, should be addressed immediately. Mr. Warr asked Mr. McCoy how much it would cost to cover these items. Mr. McCoy deferred to Dean Willis who replied that C. J. Cambre had been meeting with the insurance company regarding this issue. In addition, since most of the items were not replaceable, they had evaluated current security cameras systems and the water detection systems, and had found them to

be in good shape. He estimated it would cost approximately \$500,000 a year to insure everything in the Thomas Cooper and Caroliniana Libraries. Dean Willis concluded that they were currently looking at restoration insurance, which would be approximately \$50,000 a year.

Mr. Wienges asked what the University's current policy was regarding how much insurance should be carried. Mr. Kelly replied that since insurance premiums fluctuated on the values of buildings, equipment, and properties, the University had to try to balance replacement cost against how much insurance it could afford.

Mr. Adams stated that at the very least the Committee needed to have information regarding the values versus the insurance, by which coverage decisions could be made. Mr. Adams also moved that a report for the Fiscal Policy Committee be prepared on the total values of insurable USC properties versus the insurance values on those properties. Mr. Wienges seconded the motion. The vote was taken, and the motion carried.

B. Office of the Registrar:

Mr. Warr recognized Mr. McCoy and noted that Barbara Blaney was also present if needed.

1. Audit Finding #1 - Security: Mr. McCoy stated that there were a couple of findings consolidated under the title of "Security." The first was that a former student worker's computer access to view confidential student records was not revoked when that individual left the department. The second case involved the release of official transcripts to students whose records were on hold.

Mr. McCoy stated that upon his recommendation, the Registrar's Office had tightened up their procedures; and that at their follow up review he hoped to verify the problems were corrected. Mr. Warr stated that the report was received as information.

C. Student Financial Aid:

Mr. Warr recognized Mr. McCoy and noted that Dr. Pruitt was present if needed. Mr. McCoy stated that there were two finding in Student Financial Aid.

1. Audit Finding #1 - Federal Matching Funds: Mr. McCoy explained that this finding dealt with \$46,709 in Federal Supplemental Equal Opportunity Grant Funds that had not been requested for reimbursement. However, since the audit, the funds had been properly applied for and received.

2. Audit Finding #2 - Title IV Refunds: Mr. McCoy stated that this finding dealt with Financial Services not meeting the thirty day requirement for refunds. He noted that the Federal Government, realizing the thirty day requirement was too strict, extended the deadline to forty-five days. He felt that their follow up review would show they would be in compliance with the new extended deadline.

D. Legal Residency Office:

Mr. McCoy recognized Mr. McCoy and noted that Joe Taylor was also present if needed.

1. Audit Finding #1 - Records and Diploma Holds: Mr. McCoy stated that the only finding dealt with the release of a student transcript to a "pending residency status" student who then left the University with an outstanding balance. The student had been considered an in-state resident pending the filing of appropriate tax return documentation.

Mr. McCoy stated that the Legal Residency Office instituted a new policy to prevent this type of occurrence in the future.

Since there were no other matters to come before the Committee, Chairman Warr declared the meeting adjourned at 10:25 a.m.

Respectfully submitted,

Thomas L. Stepp
Secretary