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University of South Carolina

BOARD OF TRUSTEES

Fiscal Policy Committee

June 8, 2007

The Fiscal Policy Committee of the University of South Carolina Board of Trustees met on Friday, June 8, 2007, at 11:10 a.m. in the 1600 Hampton Street Board Room.

Members present were: Mr. Eugene P. Warr, Jr., Chairman; Mr. John W. Fields; Ms. Darla D. Moore; Mr. Michael J. Mungo; Mr. John C. von Lehe, Jr.; Mr. Othniel H. Wienges, Jr.; Mr. Herbert C. Adams, Board Chairman; and Mr. Miles Loadholt, Board Vice Chairman. Mr. Mack I. Whittle, Jr. was absent. Other Trustees present were: Mr. William L. Bethea, Jr.; Mr. Mark W. Buyck, Jr.; Mr. Samuel R. Foster II; Mr. Toney Lister; 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 for Research and Health Sciences Harris Pastides; Vice President for Student Affairs and Vice Provost for Academic Support Dennis A. Pruitt; 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 Brad Choate; Vice President for Human Resources Jane M. Jameson; Vice Provost and Executive Dean for Regional Campuses and Continuing Education Chris P. Plyler; General Counsel Walter (Terry) H. Parham; Chancellor of USC Aiken Thomas L. Hallman; Vice Chancellor for Business Affairs, USC Upstate, Robert Connelly; Dean of the School of Arts and Sciences Mary Anne Fitzpatrick; Dean of the School of Music Tayloe Harding; Assistant Vice Provost for Academic Affairs William T. Moore; Associate Dean for Administration and Finance, School of Medicine, Brian J. Jowers; Vice Provost for Faculty Development Christine Curtis; Associate Vice President for Finance and Personnel, Division of Student Affairs, Stacey Bradley; Budget Director Leslie Brunelli; Controller Patrick Lardner; Assistant Treasurer Susan D. Hanna; Chair of the Department of Theatre and Dance Jim Hunter; Director of the Intellectual Property Office Lisa Rooney; Director of the Department of Internal Audit Alton McCoy; University Foundations Chief Financial Officer Russell H. Meekins; Professor in the College of Pharmacy and Chair of the Faculty Senate C. Eugene Reeder; Chief Financial Officer, USC Research Foundation, Edward Walton; Patent

Administrator, Intellectual Property Office, JoAnna Floyd; Director of Governmental and Community Relations Shirley Mills; Director of Government Affairs and Legislative Liaison Johnny D. Gregory; Associate Director of Government Affairs and Legislative Liaison Casey Martin; Director of the Office of University Communications, Division of University Advancement, Russ McKinney, Jr.; Board staff members Terri Saxon, Vera Stone, and Karen Tweedy; and members of the media.

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 2007-2008:

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 \$409,000 from Bookstore commissions and Trademark and Licensing.

Mr. Fields moved to recommend the budget to the Executive Committee for inclusion in the University's FY 2007-2008 Budget. Mr. Bethea seconded the motion. The vote was taken and the motion carried.

II. Internal Audit Department Budget, FY 2007-2008:

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 2007-2008 Internal Audit Budget with sufficient funds to operate the department at its continued high standards.

Mr. Mungo moved to approve the FY 2007-2008 Internal Audit Budget, as recommended, for inclusion in the Executive Committee's budget presentation to the full Board. Mr. Fields seconded the motion.

Mr. McCoy noted that he planned to use the majority of his Department's carry forward monies to purchase a new software system.

The vote was taken, and the motion carried.

III. Audit Tracking Report: Chairman Warr called on Mr. McCoy who reported that there were no outstanding audit issues.

IV. Internal Audits:

A. School of Music: Mr. McCoy stated that there were five fairly minor issues that dealt with accounting matters. They included the String Project Checking Account, Instrument Insurance, Chorus European Trip Fundraising, Chorus European Trip Accounting, and Band Tuition Reimbursements.

Mr. McCoy briefly discussed each finding and the School of Music's response to each finding. All have been satisfactorily resolved or are near final resolution.

B. Department of Theater and Dance: There was only one finding, dealing with VISA purchasing card receipts, which had been addressed.

C. School of Medicine: There were four findings:

1. Educational Trust Policies: The Educational Trust Policies finding addressed the fact that the School of Medicine Trust did not have an established set of policies to govern its expenses and operations, but did however follow with the USC Educational Foundation's expense policies. As a result of the finding, policies were in the process of being developed and were expected to be completed and presented for approval and implementation at the November 2007 School of Medicine Trust Board of Director's meeting.

2. Educational Trust and Practice Plan Expenses:

The findings noted disbursements from the Specialty Clinics that exceeded the limits established by the Educational Foundation and USC Policy and multiple payments that had inadequate or incomplete documentation. Mr. McCoy reported that the Secretary/Treasurer of the Educational Trust was working to address the findings.

3. Ophthalmology Internal Controls: The Audit revealed weaknesses in the Ophthalmology optical shop internal controls, and that the overall operation was rated substandard. The Audit recommendation was for management in the School of Medicine to oversee the implementation of internal controls in the optical shop.

As a result of the finding, the Chair of the Department of Ophthalmology requested a restructuring of the operation of the optical dispensary to be completed no later than July 1, 2007; this restructuring would resolve the audit issues.

4. Outstanding Cash Advance: The audit revealed an outstanding cash advance to a faculty member who had since terminated his employment at USC. An advance of \$12,000 was issued on October 26, 2005, of which only \$8,210 had support documentation. Therefore, support documentation needed to be produced for the remaining \$3,790 or it needed to be paid back to the University.

Mr. Brian Jowers explained that the University still held over \$100,000 in grants awarded to the former faculty member who was now employed by the Medical University of South Carolina. He stated that they would not release those grant funds until the \$3,790 debt was repaid or properly documented.

Mr. Mungo questioned the high student-faculty ratio at the School of Medicine. Dr. Sorensen explained that the student-faculty ratio was directly related to the fact that the majority of faculty were clinical faculty who saw patients and generated revenue.

Mr. Adams suggested that if the University's School of Medicine faculty-student ratio was compared to other institutions' schools of medicine that comparison would show that the University was in line.

D. Intellectual Property Office: There were no Audit findings, and Lisa Rooney, Director of the Intellectual Property Office, was commended.

E. Campus Recreation: The five findings dealt with business practices at the Blatt Physical Education Center and the Strom Thurmond Wellness Center. Two dealt specifically with cash receipting. Some of the findings were a repeat of findings found in the Department's prior audit. Approximately 90 percent of the findings had been or would be resolved through the use of the CarolinaCard for payments.

F. College of Hospitality, Retail, and Sport Management:

Mr. McCoy addressed the finding in detail and noted the serious nature of each.

Noting that Dean Moody was to retire on June 30, 2007, Vice Provost for Academic Affairs Dr. William "Ted" Moore discussed his response to each finding, as noted in his May 31st letter to Mr. Stepp which was copied to the Committee. He assured the Committee that the Division of Academic Affairs recognized the importance of the findings and that it was in the process of examining each of the fourteen findings and applying remedies.

Dr. Moore added that the audit report amplified the need to review the full administrative structure of the College in its entirety, both in terms of organization and key personnel. Provost Becker had appointed Dr. Moore to serve as Acting Dean of the College until Dr. Sheryl Kline assumed her role of Interim Dean in August 2007. The College faculty and staff had been informed of the personnel changes.

The audit finding concerned: Conflicts of Interest, Scholarship Committee Documentation, Scholarship Criteria Waivers, Graduate Assistantships, Operation of Printing Center, Missing Proof of Deposit, Sport and Entertainment Management Sponsored Awards and Authority to Sign Contracts, Reconciliation of 2005

Conference, Account of 14030 L235, McCutchen House Internal Control Weaknesses, Change Fund Shortage, Culinary and Wine and Beverage Institutes Foundation Accounts, Cash Receipts, and Account 14050 RP01.

Dr. Moore concluded that although they were making progress, substantial work remained to be done.

The Committee expressed their concerns about the Audit, and some stated that it was the worst they had seen since serving on the Board.

Mr. Fields commented on the wisdom of the formation of the Fiscal Policy Committee and noted that it was formed during Mr. Mungo's term as Board Chairman.

Mr. McCoy stated that there were currently three auditors on the Internal Audit Staff under thirty years old. All three recently passed the Certified Public Accountant's exam with high scores.

Since there were no other matters to come before the Committee, Chairman Warr declared the meeting adjourned at 12:00 p. m.

Respectfully submitted,

Thomas L. Stepp  
Secretary