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University of South Carolina

BOARD OF TRUSTEES

Fiscal Policy Committee

June 9, 2005

The Fiscal Policy Committee of the University of South Carolina Board of Trustees met on Thursday, June 9, 2005, at 11:15 a.m. in the Capstone House Campus Room.

Members present were: Mr. Michael J. Mungo, Presiding; Ms. Rita M. McKinney; Mr. John C. von Lehe, Jr.; Mr. Eugene P. Warr, Jr.; Mr. Othniel H. Wienges, Jr.; Mr. Herbert C. Adams, Board Chairman; and Mr. Miles Loadholt, Board Vice Chairman. Members absent were: Mr. Robert N. McLellan and Mr. Mack I. Whittle, Jr. Other Trustees present were: Mr. James Bradley; Mr. Toney J. Lister; 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 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; Vice Provost and Executive Dean for Regional Campuses and Continuing Education Chris P. Plyler; Vice President for Human Resources Jane M. Jameson; General Counsel Walter (Terry) H. Parham; Chancellor of USC Beaufort Jane T. Upshaw; Dean of USC Lancaster John Catalano; Associate Provost for Budget and Operations William T. Moore; Assistant to the Vice President, Office of Business and Finance, Ken Corbett; Director of the Internal Audit Department Alton McCoy; Director of Employee Communications Debra K. Allen; Assistant Treasurer Susan D. Hanna; Public Information Officer, Office of Media Relations, Karen Petit; Director of University Communications, Division of University Advancement, Russ McKinney, Jr.; and members of the media.

Mr. Mungo called the meeting to order and welcomed everyone present. Mr. McKinney indicated that there were no members of the press 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.

Open Session

I. Designated Fund Budget - 2005-2006: Mr. Kelly reported that budget increases had been requested for the Provost Faculty Chairs, Student Affairs, Donor

Development and the Staff Development Program which would increase the budget from \$808,000 to \$843,000.

Mr. Mungo called for a motion to recommend the Designated Fund Budget to the Executive Committee for inclusion in the University's FY 2005-2006 budget. Ms. Moore so moved. Mr. von Lehe seconded the motion. A vote was taken, and the motion carried.

II. Audit Tracking Report: Mr. Mungo called on Mr. McCoy who reported on the following audit reports:

A. Payroll: Mr. McCoy reported that all University employees, with the exception of one, were participating in direct deposit of payroll checks. The next step in the process would involve employees retrieving their pay stubs on line.

It was asked whether that particular employee could be forced to comply with the direct deposit of payroll checks. Mr. McCoy responded that the policy required all new employees to use direct deposit and current employees were "grandfathered" in; however, from a legal standpoint, he was unsure whether the Administration could mandate the employee's participation. Mr. McCoy would pursue this matter with the Vice President for Human Resources and Legal Counsel.

B. Alumni Association: Mr. McCoy stated that all University contracts should be forwarded to the Secretary of the University for his signature and approval. However, the Director of the Alumni Association signed all contracts involving the Alumni Association because they had a separate charter. Mr. McCoy suggested that the Alumni Association follow the same contract approval process as other departments. He had requested and was awaiting an opinion from the Legal Department regarding this matter.

C. Printing Services: Mr. McCoy reported that Printing Services had operated with a deficit during FY 2003-2004. The auditors would continue to monitor the department to determine whether they would break even this fiscal year and would take appropriate action to ensure the department operated profitably and/or adjust rates as needed.

D. International Programs for Students: Mr. McCoy stated that USC Aiken and USC Upstate had implemented new procedures. A review of the procedures for effectiveness would be conducted at the fall registration.

In addition, Dr. Pruitt was establishing system-wide procedures for various items discussed in the audit; he was awaiting legal advice to ensure that the procedures were in compliance with the immigration law.

E. Colonial Center: Mr. McCoy reported that the University did not have a written agreement with Global Spectrum which managed the arena.

Mr. McCoy reported that Centerplate, which managed concessions at the Colonial Center, had exclusive rights to all sales. However, a dispute had occurred because Global Spectrum had received revenues from an event; this issue was still unresolved.

Mr. McCoy reported that a contract between the University and Action Sports contained a "Founding Partners" provision allowing the company to designate four sponsors and exclude up to \$4 million from advertising revenue. However, there was a dispute regarding the amount of revenue which should have been received. This matter had been turned over to the Legal Department for resolution.

Mr. Mungo stated that the report was received for information.

III. Internal Audits: Mr. Mungo stated that the Internal Audits had been previously mailed to the Board and there were no questions.

A. Computer Services Division: Mr. McCoy reported on the following audit findings:

- Audit Finding # 1 - GroupWise Contract with Columbia College: Mr. McCoy reported that Technology Services & Support (TSS), a business unit of Computer Services, had contracted with Columbia College to provide Groupwise email access for their faculty, staff and students at a rate of \$21.00 per full-time equivalent (FTE) student. The formula used to calculate FTE's for the entire year was incorrect; this error in calculation resulted in an underpayment of approximately \$26,000. Because Columbia College will not renew the contract for the next fiscal year, the issue was moot.
- Audit Finding #2 - Pinnacle Call Management: Mr. McCoy reported that the Pinnacle Call Management System was implemented in July 2004. To date, only one department within Computer Services (CS) had developed policies and procedures to guide employees in the proper use of the system which resulted in uncertainty in the handling of certain tickets. In addition, billing associated with certain services was not handled consistently. Almost 90 percent of the tickets created since the Pinnacle system was implemented in July 2004 were unresolved as of October 2004.
- Audit Finding #3 - Protection of Assets: Mr. McCoy stated that several buildings on campus were used to house voice and data switches which provided telephone and data network connectivity to various parts of campus. Security and environmental controls were insufficient to protect the sensitive network and communications equipment. In addition, several rooms were susceptible to water damage. He stated that theft or damage to a telephone, data switch or router could cripple the University's network for an extended period of time until technicians could locate and fix the problem; unauthorized access could permit someone to have access to sensitive data.

- Audit Finding #4 - Sufficiency of Insurance Coverage: Mr. McCoy stated that part of the network infrastructure may be covered by insurance policies for individual buildings. However, it appeared that \$20 million may be insufficient to protect the University's IT assets in the event of catastrophic loss. The auditor recommended that Computer Services, the Chief Information Officer and the Office of Risk Management collaborate to determine whether \$20 million was sufficient to protect against IT losses, and, if necessary, to take appropriate steps to increase the University's insurance policy for IT assets.

- Audit Finding #5 - "E" Funds: Mr. McCoy reported that as of June 30, 2004, the Contractual Services Group, a business unit within Computer Services operated with a deficit balance of \$159,684. Another business unit, Software Distribution, had not charged all direct costs to its account. And, Contractual Services had a deficit balance since 2000; however, the deficit had decreased significantly from the previous fiscal year. Contractual Services was involved in performing work for outside agencies; therefore, there was an increased risk for possible accusations and claims of unfair competition. To mitigate these risks and to comply with University policy, the auditor recommended that the unit formulate a written plan to erase this deficit balance in a timely manner.

In addition, salaries of employees of the Software Distribution program were being charged to "A" funds and not to the "E" fund account as established for the program. Since "E" fund programs were for paying all of direct costs, he recommended that Computer Services determine the salary expense of the personnel responsible for the program and charge the "E" account appropriately.

- Audit Finding #6: Mr. McCoy reported that a review of cash receipts noted personal toll telephone calls and fax machine usage in excess of \$650. In addition, it appeared that the cash receipting function in the director's office would be eliminated if the department complied with the University policy on personal use of telephones and other communications devices. The auditor recommended that Computer Services comply with University policies and determine whether or not the director's office should remain an official cash receipting location.

B. Student Registration and Fee Allocation: Mr. McCoy reported on the following two audit findings:

- Audit Finding # 1 - Reconciling Items: The reconciliation of the tuition and fee holding account had outstanding reconciling items dating as far back as 1999. Mr. McCoy stated that it was essential that this account be reconciled and corrected in a timely manner and he recommended that management in Financial Services sign off on the reconciliations as evidence of their review and approval.

- Audit Finding # 2 - Student Fees: A review of the holding account reconciliation noted a \$14,250 deposit that had not cleared the bank since December 1999. The deposit was outstanding because Financial Services did not prepare an ACH (Automated Clearing House) document to inform the bank of the amounts to draft from students' checking accounts; consequently, no payment was received. Mr. McCoy stated that this was a severe internal control weakness. The reconciliation of the holding account identified the shortage; however, there was no action taken to bill the students or draft their bank accounts. Management was advised to take action to correct this situation and ensure that all reconciling items identified on the holding account reconciliation were resolved in a timely manner.

C. University Publications: Mr. McCoy reported that University Publications had one audit finding: Visa card charges were not reallocated to the appropriate class codes and/or fund and the department did not account for use tax on out-of-state purchases. In addition, an individual other than the person assigned to the card made purchases and the department split a purchase between two cards. The total orders combined would have exceeded the \$1,500 transaction limit; therefore, the purchase was separated and charged on two separate charge cards. Finally, the credit card statements were not signed by the cardholders or the supervisor.

It was recommended that the liaison reallocate purchases and record use tax on all applicable purchases. Management should strictly adhere to the purchasing card policies and procedures. In addition, all purchases over the spending limit should be handled through the appropriate purchasing procedures; the statements should be signed by the cardholder and the supervisor verifying their authenticity and management's approval and review of the purchases.

D. Office of Media Relations: Mr. McCoy reported that there were no audit findings.

E. Office of Institutional Planning and Assessment: Mr. McCoy stated that the department was operating in compliance with applicable policies and procedures and had sound internal controls. However, there were a few minor exceptions which were brought to the attention of management and had been resolved during the audit.

Mr. Mungo stated that all audit reports were received for information.

IV. Other Matters:

A. Internal Audit Department Budget: Secretary Stepp stated that Internal Audit Department's budget flowed administratively through the Board of Trustees Office. Mr. McCoy had requested, and the Internal Budget Committee had recommended, a department budget of \$621,806 for FY 2005-2006.

Mr. Mungo called for a motion to approve the budget as recommended for inclusion in the Executive Committee's budget presentation to the full Board. Mr. von Lehe so moved. Mr. Warr seconded the motion. A vote was taken, and the motion carried.

The Board commended Mr. McCoy and his staff for outstanding service to the University.

Since there were no other matters to come before the Committee, Mr. Mungo declared the meeting adjourned at 11:55 p.m.

Respectfully submitted,

Thomas L. Stepp
Secretary