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University of South Carolina  
BOARD OF TRUSTEES

Fiscal Policy Committee

June 11, 2010

The Fiscal Policy Committee of the University of South Carolina Board of Trustees met on Friday, June 11, 2010, at 1:30 p.m. in the 1600 Hampton Street Board Room.

Members present were: Mr. J. Egerton Burroughs, Chairman; Mr. Chuck Allen; Mr. Greg Gregory; Ms. Leah Moody; Ms. Darla D. Moore; Mrs. Amy E. Stone; Mr. Mack I. Whittle, Jr.; Mr. Miles Loadholt, Board Chairman; and Mr. Eugene P. Warr, Jr., Board Vice Chairman.

Other members of the Board present were: Mr. Herbert C. Adams; Mr. William C. Hubbard; Mr. William W. Jones, Jr.; and Mr. Toney J. Lister.

Others present were: President Harris Pastides; Secretary Thomas L. Stepp; Vice President for Academic Affairs and Provost Michael D. Amiridis; Vice President of Finance and Planning William T. Moore; Vice President for Student Affairs and Vice Provost for Academic Support Dennis A. Pruitt; Vice President of Development and Alumni Relations Michelle D. Dodenhoff; Vice President for Information Technology and Chief Information Officer William F. Hogue; Interim Vice President for Communications and Public Affairs and Dean of the College of Mass Communications and Information Studies Charles Bierbauer; General Counsel Walter (Terry) H. Parham; University Treasurer Susan D. Hanna; Chancellor of USC Upstate John C. Stockwell; Associate Vice President for Resource Planning, Division of Finance and Planning, Edward L. Walton; Associate Vice President for Finance and Budget Director, Division of Finance and Planning, Leslie Brunelli; Associate Vice President for Information Technology and Deputy CIO, University Technology Services, Jeff Farnham; Director of Athletics Eric C. Hyman; Director of Financial Reporting and Analysis, Division of Finance and Planning, Mary Peak; Director of Governmental and Community Relations and Legislative Liaison Shirley D. Mills; Director of the Department of Internal Audit Alton McCoy; Director of Media Relations, Division of University Advancement, Margaret Lamb; Director, Salary Administration and HR Systems, Division of Human Resources, Judy Owens; Controller, Division of Finance and Planning, Patrick Lardner; Chief Financial Officer, Department of Athletics, Jeff Tallant; Special Assistant to the President and Athletics Director John D. Gregory; Special Assistant to the President J. Cantey Heath; Associate Director of Governmental Affairs and Legislative Liaison Casey Martin; General Manager, Colonial Life Arena, Tom Paquette; Incoming Board of Trustees Member Thad H. Westbrook; Faculty Senate Chair Patrick D. Nolan; State Representative Tracy R. Edge; USC distinguished professor emeritus Travis Pritchett;

Tom McNeish, Elliott Davis; University Technology Services Production Manager, Justin Johnson; and Board staff members Terri Saxon, Vera Stone, and Karen Tweedy.

Chairman Burroughs called the meeting to order, welcomed everyone, and asked Board members to introduce themselves. Ms. Lamb stated that no members of the media were present.

Chairman Burroughs took a moment to explain the responsibilities of the Fiscal Policy Committee in detail as based on the American Institute of Certified Public Accountants (AICPA) Audit Committee Toolkit. He said that he would provide the Committee a copy of the information. Mr. Whittle asked for a copy of the Fiscal Policy Committee's current charter.

I. Audit Reports:

A. Audit Tracking Report: Chairman Burroughs called on Mr. McCoy who gave a follow up reported on the following prior Audits:

USC Upstate: There were still two unresolved findings. The first dealt with the use of VISA purchasing cards and the second with travel advances which were not being reconciled to the general ledger in a timely manner. As a result, Chancellor Stockwell had informed Mr. McCoy that the personnel involved in these findings would soon be leaving the University, and the positions would be filled with "competent people."

Mr. Whittle asked that, once a finding was outstanding beyond the recommended implementation date, Mr. McCoy notify the Fiscal Policy Committee Chairman.

Russell House University Union and Campus Life: Mr. McCoy discussed two outstanding findings which involved non-compliance with the University's cash receipting policy. Although thirty employees from this division received training from the Bursar's Office, a follow up visit from the Internal Audit staff revealed that the same mistakes were being made. As a result, the Vice President of Student Affairs wrote a letter to the supervisors responsible for this division in which he strongly emphasized adherence to policy.

The Depository and the College of Engineering and Computing audits each had two outstanding findings that were in the process of being addressed.

Gamecock Apple Hub: Mr. McCoy noted that as a result of the audit, the six outstanding findings, and the fact that the store had never been a success, the store was closed. Chairman Burroughs stated that his concern was not so much about the actual Apple store, but with the process by which it opened and the lack of procedures for operational checks and balances. He asked that the Fiscal Policy Committee be provided a full report on the procedures that were not in place, or had been neglected, which allowed the store to open and led to the audit findings. He also requested that a recommendation be included in the report as how not to allow this type situation to occur again.

Colonial Life Arena: This audit's one outstanding finding dealt with

co-promoted events. Since the audit, the University's General Counsel had developed a co-promoted agreement to be used. The Colonial Life Arena General Manager, Tom Paquette, was asked to explain the process for contracting with promoters. Following questions from Mr. Whittle, Chairman Burroughs asked that discussion on co-promoted events be held at another time, since the audit finding had been addressed.

Mr. Parham clarified that as a result of the audit findings, he met with Mr. Paquette, Mr. Tallant and others, to develop a co-promotion agreement that would clarify the public documentation trail for events so that proceeds and expenditures could be tracked and audited.

Mrs. Stone commended Mr. Parham for "a job well done" in addressing the questions that arose from the audit finding, and leaving the University in "good shape" for future events. Chairman Burroughs echoed Mrs. Stone's thanks to Mr. Parham.

Human Resources: Mr. McCoy discussed several findings in the audit. One finding dealt with paid-up life insurance rosters for retired University employees which was not up-to-date. Human Resources was currently in the process of contacting, by mail, the individuals whose names were on the roster to obtain current information. In a follow up to another finding which noted checks had not been deposited in a timely manner, the Internal Audit staff found that University policy was being followed.

The finding which dealt with the University entering into a contract to provide relocation services in exchange for a share of referral fee income was resolved in that the contract that had expired would not be rebid.

Human Resources used the University's intra-campus mail system to distribute flyers soliciting new Travelers Insurance business as part of an agreement to provide an auto and home insurance program. Although these uses of the mail system were noted as a finding in the audit, the University Administration determined that Travelers mailings were University business and that use of the campus mail was appropriate for their distribution. The Department of Internal Audit disagreed with the Administration's determination. However, Human Resources agreed to consider competitive proposals from companies in addition to Travelers in the future.

Mr. Adams questioned if the Traveler's Insurance contract was a lifetime contract, and Mr. McCoy responded that it was in that it renewed annually automatically, unless revoked by either party. He further explained that the contract was awarded following a competitive bid.

Mr. McCoy stated that in reference to the finding which dealt with omitted or incomplete background checks, he found that there was a "background check" policy at the University, but no specific division or unit held responsible for making sure that it was enforced. The policy was in the process of being refined to clarify responsibility and enforcement.

Human Resources had addressed the finding related to "exit interviews" not being conducted in a centralized manner. An exit interview form was posted on the Human

Resources website and an RFP was being developed for an online exit interview program.

The last finding regarded outdated policies noted in a 2003 Audit which had still not been updated at the time. They have since been updated.

B. Final Administration Reports on Recent Audit Findings:

Chairman Burroughs called on Dr. Moore who provided the Administration's assessment of where they were on the report of outstanding findings.

As a result of the two outstanding findings in the USC Upstate and the College of Engineering and Computing audits, he formed an administrative team to review the University's purchasing card policy. He had reviewed the policy and found it to be clear. The practice and enforcement of the policy was the failure. He anticipated, in the near future, good recommendations from the team to ensure a University system wide strong, enforceable policy.

Although the Bursar's Office staff trained the Russell House staff on payment receipts per University BUSF Policy 4.10, he questioned whether the training was effective since asking the staff to train people was a stress on an already stressed and small unit, and possibly not the best way to train employees. He said that he would look into the training issue himself.

Dr. Moore stated that he had requested the Depository audit since the longstanding Bursar had retired. Under the new Bursar Janis Hoffman, practices and procedures and employee training had all been updated and would address the prior audit findings.

As a result of the Colonial Life Arena audit, all final settlement expenditures would be documented and reviewed by the Athletics Director and USC officials.

Dr. Moore stated that as a result of the Human Resources Audit, the following needed to be done: a comprehensive review of all employee benefits at the University; a review of all policies and procedures; and a review of staffing levels and budget needs for the Human Resources division.

Chairman Burroughs stated that Dr. Moore's report was received as information.

C. Audit in Process: Dr. Moore stated that the Internal Revenue Service was in the process of reviewing large complex organizations in the tax exempt sector nationwide. The review focused on three points: reporting of unrelated business taxable income; investment management and use of endowment funds; and executive compensation practices. The firm of KPMG was retained by the University to assist in this examination. The review began in January and was expected to last 18 months. The focus of the University's review had been on the Koger Center, the Coliseum; the Colonial Life Arena; the USC Aiken Convention Center; and the USC Upstate Life Center. Dr. Moore reported that they had not been made aware of any findings thus far during the course of the review.

D. Senior Campus Audit Processes: Dr. Moore reported that there was a new Southern Association of Colleges and Schools (SACS) requirement which stated that

the Institutions undergoing reaccreditation had to have separate audits. Previously, USC Lancaster, USC Salkehatchie, USC Sumter, USC Union were included in the USC Columbia audit. Now, separate audits had to be conducted on USC Aiken, USC Beaufort, and USC Upstate. The contract with Eliot Davis, the University's external auditor was amended to include an audit of each of the three senior campuses.

II. Fiscal Policy Retreat:

A. Set Date: Chairman Burroughs called on Secretary Stepp, who recommended that the retreat be deferred until after the August 6<sup>th</sup> Biennial Board of Trustees Standing Committee assignments so that membership of the Committee would be set. He suggested that at earliest, the end of August at Capstone. Chairman Burroughs concurred and noted that the retreat would be an entire day.

B. Discuss Agenda: Chairman Burroughs stated that he had asked Mr. McCoy, Mr. McNeish, and Dr. Moore to talk about topics for the retreat. Dr. Moore clarified that the University did not fall under the Sarbanes-Oxley Act (SOX); however, he noted that there were several good practices included in SOX. Therefore discussion of some of SOX would be an agenda topic. He also recommended that the draft control policy dealing with controlling assets and assessing and measuring risk be included.

Mr. McCoy provided the Committee a handout of what he thought the goals of the Fiscal Policy Committee could be, and he discussed it in detail.

III. Department of Internal Audit:

A. Retirement of Internal Auditor: Chairman Burroughs reported that Mr. McCoy planned to retire as Director of Internal Audit. He said that it was the Fiscal Policy Committee's responsibility to develop the job description, qualifications for the position, and to be the focal point for the process for filling the position. He had asked for Mr. McCoy's input in the process.

Mr. Lister asked where in the Board Bylaws or the Fiscal Policy Committee charter it stated that the Committee was responsible for replacing the Internal Auditor. After much discussion, Chairman Burroughs agreed that that authority and responsibility to replace this position was not defined in the University's Bylaws, but was what he proposed was a good accounting procedure.

B. Search Committee: Chairman Burroughs called on Mr. Loadholt who appointed the following people to serve on the Director of Internal Audit Search Committee: Mr. Warr, Board Vice Chairman; Mr. Burroughs, Fiscal Policy Committee Chairman; Mr. Adams, Board Chairman Emeritus; Mr. Stepp, Secretary of the Board; Mrs. Hanna, Associate Secretary and Treasurer, longtime Deputy Director of Internal Audit at USC (and also Secretary of this Search Committee); Mr. Ed Walton, Associate Vice President for Resource Planning; and Jeff Tallant, CFO of Athletics, and former internal auditor at USC. Mr. Loadholt also appointed himself as Chairman of the Search Committee. The Committee would be staffed by the Board of Trustees Office, under Mrs. Hanna's direction.

C. Job Description Qualifications: Chairman Burroughs called on Mr. McNeish to speak on job description qualifications for the position of Director of Internal Auditor. He recommended someone with at least ten years of experience in the internal audit function in a University environment which was comparable to USC, and to be a Certified Internal Auditor (CIA).

Mr. McCoy stated that as a result of being impatient with the process of the search he wrote an ad for his replacement; had it sent to the Fiscal Policy Committee; and had been awaiting comments from the Committee. He read the ad to the Committee. Mr. Loadholt said that the ad was subjective not objective.

At this point in the meeting, Chairman Burroughs recognized Representative Tracy Edge, present in the gallery, and thanked him for attending the meeting.

D. Proposed 2010-2011 Budget: Chairman Burroughs called on Mr. McCoy. Copies of the Department of Internal Audit's proposed budget were distributed to the full Board and the administration, since it had only been distributed Fiscal Policy Committee previously.

Mr. Whittle suggested that since the Committee only was provided a copy of the budget they should approve it; then send copies to the administration so that they could include it in the University budget; and send copies to the full Board for their consideration. Chairman Burroughs responded that Mr. McCoy provided the administration a "working" number to be included in the University Budget for the Department of Internal Audit. Mr. Whittle asked Mr. McCoy if the budget number for the Department was the same as the current year and Mr. McCoy responded the number was \$35,000 more than two years ago, to allow the Department to operate at the same staffing level of six auditors and a director.

Mr. Whittle moved to approve the FY 2010-2011 Internal Audit Budget, as recommended, for inclusion in the Executive Committee's budget presentation to the full Board. Mr. Allen seconded the motion.

Mr. Whittle requested that staff obtain copies of other peer universities' Internal Audit budgets and staffing levels to compare them to USC's.

The vote was taken, and the motion carried.

IV. Designated Funds Budget:

Chairman Burroughs called on Dr. Moore who explained that Designated Funds were revenues collected from auxiliary accounts, of which the majority of funds were used annually for scholarships. No changes were recommended for the FY 2010-2011 Designated Fund Budget.

Mr. Allen moved to recommend the budget to the Executive Committee for inclusion in the University's FY 2010-2011 Budget. Ms. Moody seconded the motion. The vote was taken and the motion carried.

Chairman Burroughs stated that there were matters about which it was appropriate to receive legal advice in Executive Session. Mrs. Stone moved to enter

into Executive Session and Mr. Loadholt seconded the motion. The vote was taken and the motion carried.

Chairman Burroughs invited the following persons to remain: President Pastides, Secretary Stepp, Dr. Amiridis, Dr. Moore, Dean Bierbauer, Mr. Parham, Mrs. Hanna, Mr. Heath, Mrs. Owens, Mr. Walton, Ms. Brunelli, Mr. McCoy, Mr. McNeish, Mr. Westbrook, Representative Edge, Mr. Gregory, and Mrs. Lamb.

At the conclusion of the Executive Session, Chairman Burroughs declared the meeting adjourned at 4:30 p.m.

Respectfully submitted,

Thomas L. Stepp  
Secretary