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University of South Carolina

BOARD OF TRUSTEES

Fiscal Policy Committee

September 24, 2004

The Fiscal Policy Committee of the University of South Carolina Board of Trustees met on Friday, September 24, 2004, at 3:00 p.m. in the Capstone House Campus Room.

Members present were: Mr. Michael J. Mungo, Senior Member, presiding; Mr. John C. von Lehe, Jr.; Mr. Eugene P. Warr, Jr.; Mr. Mack I. Whittle, Jr., Board Chairman; and Mr. Herbert C. Adams, Board Vice Chairman. Ms. Darla D. Moore was absent. Other Trustees present were: Mr. Miles Loadholt and Ms. Rita M. McKinney.

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 Advancement T. W. Hudson Akin; Vice President for Student Affairs Dennis A. Pruitt; Vice President for Human Resources Jane M. Jameson; General Counsel Walter (Terry) H. Parham; Dean of the School of Medicine Larry R. Faulkner; Chancellor of USC Upstate John C. Stockwell; Dean of USC Lancaster John Catalano; Director of Athletics Michael B. McGee; Professor in the Department of Chemistry and Biochemistry Jerome D. Odom; Associate Professor in the School of Library and Information Science, College of Mass Communications and Information Studies, John N. Olsgaard; Senior Associate Athletics Director for Business and Development, Department of Athletics, Brad Edwards; Associate Dean for Administration and Finance, School of Medicine, Brian J. Jowers; Assistant to the Vice President, Office of Business and Finance, Ken Corbett; Chief Financial Officer in the Department of Athletics, Shawn Eichorst; Director of the Internal Audit Department Alton McCoy; Director of International Programs for Students Patricia P. Willer; Director of Student Development and University Housing, Division of Student Affairs, Gene Luna; Director of Salary Administration and Human Resources Systems Judith Owens; University Legislative Liaison John Gregory; Assistant Treasurer Susan D. Hanna; Public Information Officer, Office of Media Relations, Karen Petit; and Director of University Communications, Division of University Advancement, Russ McKinney, Jr.

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

Mr. Mungo directed the attention of the Committee to the agenda and called on Mr. McCoy.

I. Audit Tracking Report: Mr. McCoy stated that the Human Resources Department would have the Background Checks Policy finalized and approved by December 31, 2004. The Payroll Department had moved toward mandatory check deposits with an implementation goal of July 1, 2005. And, USC Salkehatchie had a deficit in their Continuing Education account and planned to have this matter resolved by the end of this year.

In reference to the International Support finding, a database was being developed to identify international employees on the University's payroll; implementation of this program was anticipated by December 31, 2004.

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

II. Internal Audits:

A. Office of the Provost: Mr. McCoy reported that an audit of the Office of the Provost revealed that the office was in compliance with policies and procedures and financially sound. There were a few minor exceptions which had been resolved during the audit.

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

B. Printing Services: Mr. McCoy commended the Printing Department for its outstanding service to the University. He stated that the Printing Services Account was self supporting and had finished the fiscal year with an operating loss of \$175,700 caused by one-time relocation expenses, "high end" equipment needs and computer upgrades.

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

C. Colonial Center: Mr. McCoy stated that there were nine audit findings regarding Global Spectrum.

- Audit Finding # 1 - Contract: Mr. McCoy stated that approximately two years ago on the opening date of the arena the Athletics Department had entered into an agreement with Global Spectrum to manage the day-to-day operations of the Center. As of this date, the management agreement had not been executed but was being used as an operating agreement. A signed contract was needed to ensure the rights and obligations of both parties.

- Audit Finding # 2 - Incentive Fee: Mr. McCoy stated that under the current agreement, Global Spectrum was paid a fixed management fee of \$12,500 per month. The amount would increase annually by the percentage of the Consumer Price Index

for the local area, not to exceed 3 percent per year. In addition, Global Spectrum was entitled to an incentive fee each year of all "excess revenue over certain benchmarks that increased annually." As of May 2004, no incentive fees had been paid; this situation further emphasized the need for the final execution of a contract.

- Audit Finding # 3 - Concert Settlement: Mr. McCoy stated that as part of the audit, his team had planned to observe the final accounting and closing settlement process of a concert. However, because of short notice and the concern that the promoter would have the impression that something was wrong, Global Spectrum had requested that the auditors attend the final settlement of another event after giving ample notice; therefore, the internal auditors were unable to render an opinion on the final accounting and closing settlement process.

Mr. McCoy stated that the Internal Audit department should be allowed to view any settlements or other activities in the Colonial Center which it deemed necessary in the performance of its responsibilities without prior warning or approval by Global Spectrum management; the Athletics Department supported this position.

After learning of this matter, the Athletics Department had immediately contacted the management of Global Spectrum to express its concerns. Company management agreed that the auditors should be allowed to view a settlement process as long as it did not disrupt the settlement process.

To ensure that disagreements did not arise in the future concerning this issue, it was recommended that the contract should contain a "right to audit" clause.

- Audit Finding # 4 - Bank Reconciliation: Mr. McCoy stated that in the operating account there were unreconciled balances used to balance the general ledger. Management was aware of this situation and believed that the unidentified differences were the result of accounting errors which had occurred during the first year of operation; these differences had been written off.

Mr. McCoy stated that the Internal Audit Department understood that problems did occur during the start-up phase; however, bank statements should be reconciled to the general ledger on a monthly basis and errors or discrepancies should be identified and corrected. In addition, it was noted that employees at Global Spectrum who performed bank reconciliations also had accounting duties. Mr. McCoy emphasized that bank accounts must be reconciled monthly and independent employees should perform account reconciliation.

Mr. McCoy stated that Global Spectrum had agreed with the findings and recommendations; all bank accounts were currently reconciled.

- Audit Finding #5 - Financial Accounting: Mr. McCoy stated that there was duplication in the accounting process. Because Global Spectrum's accounting system was separate from the University's, once a month, the company would send a detailed general ledger and income and expense summaries to the Athletics Department; it, in turn, would extract related revenues and expenses from Global Spectrum's financial statements in order to record activity on the University's general ledger. This system proved to be very timely and a duplication of effort.

The Internal Audit Department recommended that Global Spectrum not post transactions in the University's monthly financial statements which were already recorded in the Athletic Department's general ledger.

- Audit Finding #6 - Write-Offs and Adjustments: Mr. McCoy explained that Global Spectrum's journal entries for cash and other asset adjustments and write-offs were entered differently than the University's system; therefore, it was somewhat confusing. The auditors recommended that Global Spectrum forward all manual journal entries that directly affected the financial reporting of the University to the Athletics Department to receive prior approval and review. Global Spectrum agreed with this recommendation.

- Audit Finding #7 - Novelty Sales: Mr. McCoy stated that deposits for the sale of novelty items for a particular event had revealed a cash shortage of \$778.22. It was recommended that Global Spectrum determine the disposition of the discrepancies between the settlement sheet and deposit; future settlements should be supported by sales documentation, reconciled and discrepancies resolved. Global Spectrum concurred with the recommendation.

- Audit Finding #8 - Novelty Contract: Mr. McCoy stated that there was a disagreement between Centerplate and Global Spectrum regarding novelty sales. The University had a contract with Centerplate which provided the company exclusive rights to novelty sales in the arena. However, Global Spectrum had received several thousand dollars in novelty sales from the *Sesame Street Live* event. Centerplate management was unaware that this settlement had occurred. The settlements received by Global Spectrum had not been paid to Centerplate as of the date of the finding. Global Spectrum believed that Centerplate had exclusive rights except for "family events" such as the circus where the event promoter customarily provided such sales and that the *Sesame Street Live* event was in the same category; typically, these events do not consign their merchandise to an arena or arena concessionaire to sell.

It was recommended that the Athletics Department work with Global Spectrum and Centerplate to settle the above issue and to ensure that both parties were in agreement regarding contract rights and obligations in the future.

- Audit Finding #9 - Actions Sports Media Founding Partners Agreement: Mr. McCoy stated that the University had contracted with Actions Sports Media to handle promotions and advertising in the arena. The contract terms contained a "founding partner" agreement which allowed Action Sports Media (ASM) to designate four sponsors as substantial supporters. Revenue up to \$4 million received from such sponsors, "prior to the opening of the new arena shall be excluded"; if ASM received less than \$4 million prior to the opening of the arena, revenue from sponsorships agreements with annual payments over ten years shall be excluded, provided that this exclusion shall be limited to \$100,000 per sponsor per year or a total of \$4 million for the program, whichever was less.

The University had received a check from Action Sports Media in the amount of \$366,000; however, the University believed that the amount was not computed correctly and that it was entitled to an additional amount.

Mr. McCoy stated that the Athletics Department and the General Counsel's office were currently working together to resolve this issue with Action Sports Media.

Mr. Brad Edwards responded to various audit findings and thanked the Internal Audit Department for its work.

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

D. International Programs for Students: Mr. McCoy stated the scope of the audit had involved the entire University system (regional campuses and the Columbia campus); approximately 9 - 10 findings had been cited in the report. There were specific violations of some federal policies; however, no guidelines existed to determine appropriate penalties. To condense the findings into one threshold would be that there would have to be some system-wide policies and procedures that direct the whole University system as to how to deal with unique and general situations and define specific guidelines on what actions we would take for different violations.

Mr. McCoy stated that Dr. Pruitt had received President Sorenson's approval to appoint a Task Force in order to develop system-wide policies and procedures to deal with various situations; these guidelines would be a model for other institutions in the state and the Commission on Higher Education. Dr. Pruitt anticipated a draft report by December.

Mr. Mungo thanked Mr. McCoy for the thoroughness and depth of this audit report and stated that it was received for information.

III. Educational Trust Audit - School of Medicine: Dean Faulkner reported that each year an annual independent audit of the School of Medicine Educational Trust was conducted; no significant problems had been revealed.

The income in the practice plan was slightly higher than \$30 million. The income had not increased at the rate as in previous years because of budgetary problems and a hiring freeze of clinical faculty members. Currently, they were in the process of renegotiating arrangements with affiliated institutions, including Palmetto Health, to hopefully raise income to \$33 million in the practice plan this year.

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

IV. Bookstore Quasi Endowment Transfer: Mr. Kelly reported that the Bookstore Quasi Endowment had advanced from two perspectives. An interest income over the previous endowment for FY 2004 was \$193,143 bringing the total to \$4,448,726. For the first time in five years, the University had been able to contribute commissions of \$150,000 above the approved expenditures for this account bringing the total current endowment balance to approximately \$4.6 million.

Mr. Kelly explained that the bookstore had been extensively renovated. This year, its sales had increased 24 percent and 27 percent in textbooks. He thanked Helen Zeigler for working closely with Dr. Pruitt to promote preordering of textbooks for freshmen; their books were boxed and ready to go when they arrived at the University.

Dr. Sorenson stated that during the October 5, 2000, Fiscal Policy Committee meeting, the Committee had recommended that when the Bookstore Quasi Endowment fund balance reached \$5 million, the interest earned from this investment would be used to fund scholarships. The recommendation was subsequently approved by the Board of Trustees. With the interest income approaching nearly \$200,000 annually, Dr. Sorenson recommended that the committee authorize all future "interest income only" to be used for scholarships. The University would still apply future commission revenues to the fund balance.

Mr. Mungo called for a motion to approve the use of all future "interest income only" from the Bookstore Quasi Endowment fund for scholarships. Ms. McKinney so moved and Mr. Adams seconded the motion. The vote was taken, and the motion carried.

Since there were no other matters to come before the Committee, Mr. Mungo declared the meeting adjourned at 3:35 p.m.

Respectfully submitted,

Thomas L. Stepp
Secretary