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February 23, 2009

Mr. Thomas Stepp
Secretary, Board of Trustees
USC Columbia

Dear Mr. Stepp:

We have completed our internal audit of the University of South Carolina Upstate for the period ended April 30, 2008. This report summarizes the work performed and the results thereof, together with our recommendations and the campus responses.

I. INTRODUCTION

The University of South Carolina Upstate is a coeducational, state-assisted, comprehensive metropolitan institution. The campus has an operating budget of $59 million and 5,000 students were enrolled in the Spring of 2009.

The 328-acre campus is located near the foothills of the Blue Ridge Mountains and offers bachelor's degrees in liberal arts, sciences, business administration, nursing, and teacher education and master's degrees in education. USC Upstate attracts a racially and culturally diverse student body of
varying ages and experiences from across the state, nation and foreign countries.

In addition to academic excellence, USC Upstate is dedicated to providing services to the surrounding community by fostering cultural appreciation by making available its resources, including its programs, services, and the expertise of the faculty, staff, and students.

There are 188 academic and 178 staff personnel employed full-time at the campus. Part-time personnel consist of 158 academic and 72 staff.

USC Upstate is a member of the NCAA Division I, competes in the Atlantic Sun Conference, and fields teams in both men's and women's sports.

II. PURPOSE AND SCOPE

The purpose of our audit was to determine that USC Upstate is operating in accordance with the internal policies and procedures of the campus as well as applicable University and/or state policies, to review internal procedures and controls, and to test financial accountability. Tests were performed in the areas of cash receipts and deposits, expenses, accounts receivable, VISA purchasing cards, registration, agreements, equipment, Bookstore, Admissions, Housing, Student Affairs,
Athletics, Dining Services, Parking, and other selected business practices and controls.

We did not audit any financial activity of the Carolina Piedmont Foundation (CPF) nor the relationship between USC Upstate and the CPF. The CPF is audited annually by an external accounting firm.

III. FINDINGS, RECOMMENDATIONS, AND CAMPUS RESPONSES

While this report focuses on audit findings, many departments reviewed during the audit were in compliance with University policies and procedures. We did, however, note the following concerns which require management's attention.

VISA Purchasing Cards (Audit Finding #1) ✓

During our audits of VISA purchasing cards on the Upstate campus, we noted numerous violations of University policies and procedures. Violations are summarized below:

1. In one department, 18 statements were not on hand and available for audit.

2. Campus-wide, receipts were missing for 102 credit card purchases made during the audit period. Other problems with documentation include a lack of itemized receipts and noncompliance with University procedures for documenting missing receipts.

3. Four transactions appear to have been split to circumvent the $2,500 transaction limit established by the Purchasing Department.

4. Multiple unauthorized purchases were noted. Unauthorized purchases include gift cards, food, and entertainment
charges. Without obtaining prior approval, software upgrades were purchased for the home computers of two employees.

5. Campus-wide problems with use tax assessment and expense account reclassification were noted.

6. Numerous credit card statements were missing one or more signatures. Purchasing card liaisons are responsible for the timely review and reconciliation of billing statements. Their review serves as a first line of defense and should provide an early warning to potential problems.

7. Several liaisons stated they had not received sufficient training on the Works purchasing card software.

We recommend all departments on the Upstate campus adhere to University policies and procedures for the use of VISA purchasing cards. Failure to follow purchasing card policies should result in the revocation of cardholder privileges. Further, Upstate Purchasing officials should implement a training program designed to educate both cardholders and liaisons of their purchasing card responsibilities.

**Campus Response:** New VISA cardholders and liaisons are initially trained in a one-on-one setting with the USC Upstate Purchasing Director. Upon completion of the training, new cardholders are required to sign an affidavit verifying they have been trained and given policies and procedures for proper use of the card. Our Director, has asked the USC Purchasing Department to make available periodic refresher classes on our campus to ensure our liaisons and cardholders are properly trained on the WORKS purchasing card software system.

When training dates are established, we will notify users and their supervisors of the training in advance and encourage them to attend. In addition, we will also remind users that individual questions or assistance is available through the USC Upstate Purchasing Director or the USC Purchasing Department.
Athletics Department

Personal Airline Tickets (Audit Finding #2)

An Athletics Department employee used a University-issued purchasing card to buy four one-way airline tickets in October 2007. The tickets totaled $2,248.40 and were used to fly the employee’s wife and daughter to Alaska with the team he coached.

University funds should not be used for the personal benefit of employees or their families. Intentional misuse of University funds is a violation of University policy BTRU 1.20, “Dishonest Acts and Fraud.” As specified in this policy, violations may lead to disciplinary action.

We recommend the coach be required to reimburse the University for the airline tickets. Due to the serious nature of the finding, Human Resources and the Office of General Counsel should be contacted to determine if additional disciplinary action should be taken.

Campus Response: We agree with the audit finding and the recommendations of the Internal Auditor, recognizing the serious nature of this finding, took immediate personnel actions as follows:

1. We consulted with the Office of Human Resources and the Office of General Counsel regarding appropriate disciplinary action against the employee. The employee was suspended without pay for three (3) days.
2. The employee was required to reimburse the Department for the full cost of the airline tickets before he was allowed to return to work.
3. The employee’s State purchasing card was revoked and the employee is prohibited from using any other State purchasing card in the future.
Travel Advances (Audit Finding #3)

At the end of the 2007-2008 fiscal year, outstanding Athletics travel advances totaled $63,240.39. Advances are not being reconciled to receipts for travel expenses and cleared through the Controller’s Office in a timely fashion. The timely reconciliation of travel advances is essential in maintaining control and accountability of outstanding funds.

We recommend management develop and implement procedures for the periodic review, timely reconciliation and clearing of outstanding advances. Reconciliations and supporting documentation should be maintained for future review and audit.

Campus Response: The Athletics Department is evaluating the status of all outstanding advances and will actively pursue the work of reconciling any outstanding Travel Cash Advance balances in an expedient fashion utilizing the appropriate procedures. Additional documentation methods have been implemented in the Athletics Dept regarding Advances to more accurately track and manage these accounts, as well as insuring their timely processing.

Contracts (Audit Finding #4)

A third-party is responsible for athletic event ticket sales; USC Upstate does not have a written contract for these services. Similarly, concessions for these events and sports camps are handled by an Upstate faculty member based on a verbal agreement with the Athletics Director.
We recommend management evaluate current ticket and concession sales activities. Should the department continue with current arrangements, formally-documented contracts should be executed. Contracts are necessary to document each party's obligations and minimize each party's risk during performance of the agreement. Contracts should also include a right to audit clause. In addition, the faculty member selling concessions will need to complete a conflict of interest form.

Campus Response: The Athletic Department wishes to continue using our existing vendors for ticket sales/security and for concessions. With regard to ticket sales, although the vendor is not under formal contract, controls were in place in the 08/09 year and a ticket sales report was produced and signed to verify the revenue and sales records. We will utilize formally documented contracts for the ticket and concession sales activities detailing the obligations, duties and expectations of the parties involved and assure adequate controls over deposits. The contracts will include the specific requirements as to reporting schedule and the format of the report with detailed transaction activity. A concessions contract will be established with sales controls and a right to audit clause. Contracts will be sent for review to the Office of Legal Counsel and executed according to University procedures.

Coaches' Contracts (Audit Finding #5)

We reviewed the employment contracts of two coaches who host sports camps on the USC Upstate campus. Both contracts were out of date. One coach's employment had been extended through December 15, 2005; the other had been extended through May 10, 2006. The contracts also referred to an outdated NCAA
bylaw that was brought to the attention of the department during a 2003 audit of USC Upstate.

In addition, contracts were silent with regard to the use of Upstate athletics facilities and associated rental fees as well as the requirement for coaches to obtain liability insurance while using these facilities for sports camps.

We recommend the department review employment contracts and renew out-of-date contracts. During the renewal process, sports camp contract provisions should be expanded upon to include current NCAA requirements, facility rentals and fees, insurance, etc.

**Campus Response:** All Athletic Department employee contracts are being reviewed and renewed for the 2009-2010 academic year. These contracts will include, for coaches, provisions regarding the operation of sports camps to comply with NCAA requirements, University guidelines and procedures regarding facility rental, insurance etc.

**Corporate Sponsorships (Audit Finding #6)**

USC Upstate has entered into corporate partnership agreements with a number of local and national businesses. In return for cash or in-kind contributions, USC Upstate provides benefits as outlined in the agreements. Benefits include signage, complimentary golf tournament entries, USC Upstate basketball tickets and hospitality room passes, and access to USC football tickets.
Revenue from corporate sponsorships is received by the Carolina Piedmont Foundation (CPF). Only a portion of the revenue is transferred to Athletics Department student activity funds to cover any funding shortfalls.

The Carolina Piedmont Foundation is an eleemosynary corporation separate from both USC Upstate and University of South Carolina Foundations. The CPF exists to support USC Upstate; however, it is an independently incorporated organization and as such is not subject to the rules and regulations promulgated by state law or University policies and procedures. Because of its independence, transactions between USC Upstate and Carolina Piedmont Foundation should be performed on an "arm's-length" basis.

The CPF should not be entitled to corporate sponsorship revenues. The partnership agreements were signed by USC Upstate representatives, and the University provides benefits in return for a sponsorship of its Athletics Department.

We recommend management review the relationship between the Athletics Department and the CPF to determine the proper disposition of corporate sponsorship funds.

**Campus Response:** Management will review the relationship between the Athletics Department and the Carolina Piedmont Foundation.

The Athletic Director has issued a directive explaining the necessity of attributing all Foundation fundraising costs against Foundation funds only. The directive includes guidelines regarding contributions by corporate sponsors and
mandating any related fund raising expense be charged to the foundation as well.

**Business Office**

**Fee Waivers (Audit Finding #7)**

A review of accounts receivable adjustments noted two instances where fees were waived or written off without proper approval. Further, it appears one fee waiver, the removal of tuition payment plan late fees, was inappropriate. This student was a Financial Services student assistant who could not pay the late fee. Without payment, a hold would have been placed on the student’s record, preventing her from receiving a degree.

We recommend the campus follow procedures for fee waivers and write-offs. Approval for fee waivers should be obtained from the Director of Financial Services/Bursar in Columbia. Further, fee waivers should only be granted in cases where extenuating circumstances are involved. The inability to pay does not constitute an extenuating circumstance.

**Campus Response:** We agree, and it is our policy, not to write-off late fees just because the student claims they are unable to pay. The Director of Financial Services, USC Upstate, did write-off a $50 late fee. However the approval of the waiver was not obtained from the Director of Financial Services/Bursar at USC Columbia. In our assessment, there were some extenuating circumstances. This international student had worked in various areas on campus, achieved a 3.8 GPA, a student ambassador, and a student leader. The fee was waived in order for her to graduate. In the future, for those fee waivers with extenuating circumstances, detailed documentation will be provided with all necessary written approvals obtained, and complete documentation retained for future audits.
Parking Services

Ticket Collection (Audit Finding #8)

When a car tag can be matched to a student’s social security number, the amount due is placed on student receivables. If the amount due is not collected through the registration process, no further attempts are made to collect the outstanding amount. Currently, no collection efforts are being made on car tags that do not match up with a student.

As of June 30, 2008, outstanding parking fines totaled $69,481. Of this balance, $54,394 can be attributed to fines from tags numbers that did not match student records and may never be collected.

We recommend management increase collection efforts. Procedures should be developed and implemented for researching tag numbers not linked to student accounts. The department should pursue alternate collection methods when holds on student accounts do not result in payment. Uncollectible accounts should be written off in accordance with University policies.

Campus Response: The existing Parking Management System utilized by University Police does not have the capacity to adequately cross reference parking permits and parking fines. As such, tracking account receivables is at best an onerous task. Budget constraints aside, it is our intent to either upgrade or replace our existing Parking Management System in fiscal 2009-2010 to enable linking and cross-checks of permit holders and violators. Other specific actions that will shore up this process include the following actions:
• Require picture identification at the time of parking permit issuance.
• Booting of non-compliant drivers' vehicles (wheel immobilization on the 3rd ticket).
• More effectively utilize the DMV database to assist in linking vehicles to drivers and/or registered owners.
• Amend the current parking fine collection policy to hold registered owners financially responsible for all unpaid parking fines.

University Police will receive a Parking Fine Receivables report every 30 days and review fine balances. Any unpaid balances over 30 days exclusive of a "student hold" will be turned over to a collection agency. Violators with outstanding balances in excess of $500.00 will have their vehicles booted and/or turned over to a collection agency.

Students who do not pay their fines through the University's "hold process" will be turned over to a collection agency once the accounting system administrator in the Cashier's Office turns the entire student account over to a collection agency.

IV. CONCLUSION

This concludes our audit of the University of South Carolina Upstate. We would like to express our sincere appreciation for the cooperation and assistance we received from the entire faculty and staff.

Respectfully submitted,

Alton A. McCoy, CPA
Director

C: Fiscal Policy Committee, Board of Trustees
   Executive Committee, Board of Trustees
   Dr. Harris Pastides, President
   Dr. John Stockwell, Chancellor, USC Upstate