The meeting of the Finance and Audit Workgroup was called to order by Chair Rhea Law at 10:33am. The following members were present: Rhea Law, John Ramil, Dick Beard, Lee Arnold, Sherrill Tomasino, Judy Genshaft, John Ward, Brian Keenan.

Chair Law announced there would be a change in the order of the agenda. Information item V, Investment Consulting Services ITN, would be first.

**Information Items:**

V. Investment Consulting Services ITN

Dr. Carlucci began discussion of this item. He indicated that we manage our cash; we invest our operational cash. FIU and UF are working on this also. Today, operational cash is invested with the state treasurer – low return, stable, liquid. We want to identify the portion of our cash with a longer shelf life and invest for better return.

Fell Stubbs reported that we have a $330M operating funds portfolio – the ITN was issued to benefit this portfolio. Practice Plan anticipates piggybacking on this ITN. USF does not have an investment committee currently. We are targeting the top 10 consultants in the world. Two have identified conflicts of interest and opted out – but otherwise, considerable interest. Current investment rate is about 5% with SPIA (Special Purpose Investment Account). The ITN is a logical step from the Trustee’s recent adoption of the investment policy.

Nick Trivunovich pointed out that some of the $350M in cash is restricted. About $250M can be invested in longer term investments.

Mr. Stubbs noted that this ITN has nothing to do with the Foundation’s endowment – those are separate funds. In response to a question as to whether affiliates could opt in, he stated they could and we would work with their boards and investment committees.

Trustee Beard asked if the Foundation could bid on this. Alan Bomstein, Treasurer, USF Foundation Board of Directors, indicated that the Foundation has $50-60M in operating funds plus $350M in endowment. The Foundation can manage USF’s operating funds with its operating funds.

John Scott further stated that the Foundation has a hybrid pool for operating investment which is long term and short term.

Trustee Arnold would like us to look at the possibility of the Foundation managing our operating funds. He does not want to see a number of investment managers all over campus. He is looking for efficiencies and economies of scale, etc.

**Action Item:**

I. Medical Faculty Office Building
   Action: Approve Financing Project

Dr. Carlucci introduced the Medical Faculty Office Building item. He noted that the project will go for programmatic approval, financial approval and community impact today.
Trustee Beard asked if the cost is $210 per foot. Mr. Stubbs responded that this figure is the total cost but it is $160 per foot for construction.

Trustee Arnold stated we should build as big as we can. He then asked if we could accommodate research on this project. Dr. Carlucci indicated that he doesn’t anticipate demand to change – we will find other space for research. Joann Strobbe indicated that the current lease expires January 2009 and we are having difficulty negotiating with the building owner.

Trustee Arnold commented that we have other space needs on campus we could address them here. Trustee Beard wants us to build higher, not just increase the floor space.

Trustee Tomasino noted that the document states “northwest corner,” it should state northeast corner. Mr. Stubbs will make the change.

**Trustee Tomasino made a motion to approve financing project for medical faculty office building. Trustee Ramil seconded the motion. The motion passed.**

**Information Items:**

II. Audit Findings Status Report

Eric Walden presented the Audit Findings Status Report. Corrective actions have been completed for all but two items which will be completed by next report. He reported that we are now in an operational audit by the state. USF is now considered a separate component unit by the state like UF and FSU. Nick Trivunovich noted that the scope of this audit has been expanded (cell phones, costing of materials and supplies). He further noted that our assets have reached a level where we are considered significant by the state.

Trustee Ramil commented that this can be a help and a tool as our organization progresses.

Mr. Walden noted that we are in the process of establishing an enterprise risk management plan, working with Nick Trivunovich and Debra Gula.

III. Quarterly Reports

Dr. Carlucci began the discussion on the quarterly reports. He explained that we will be presenting three different metrics for our information/reports: budget, spending authority; financials/accruals (revenue and expenditures); and treasury/cash.

a. USF Quarterly Financial Reports – All Sources

Nick Trivunovich presented the USF Quarterly Financial Reports for quarter 2. Beginning with the balance sheet, he noted that cash is fully invested as we get it. Investments have gone up this year due to the following four reasons:
- tuition and fees collections
- receivables have decreased
- had financial aid monies on 12/31 that were not yet ready for disbursements
- net income increased from last year to this year.

Mr. Trivunovich then reviewed the income statement noting that we should have a surplus at the end of the year.

Dr. Carlucci reported that the first DSO has been brought onto our financial system – Sun Dome. We are working towards moving all the other DSOs as well. This will enable consistent reporting.
Trustee Arnold stated that he supports moving all the DSOs to our financials and made a motion to move all DSOs to our financials. Trustee Beard seconded the motion. The motion passed.

Dr. Carlucci explained the plan for the DSOs is as follows:
1. convert financials
2. redo bylaws
3. spell out service agreements with USF

Mr. Walden stated that all new DSOs will immediately be on our financial system.

b. USF Quarterly Budget Reports – Budget to Actual

Bertha Alexander presented the USF Quarterly Budget Reports – Budget to Actual for quarter 2 and projected thru June 30. She began with the revenue report noting that actual revenues exceeded budgeted for Q2 due to funds for Centers for Excellence and salary increases (E&G). Next she reviewed the budget to actuals report noting a 6.7% growth in overall budget over the prior year. She further indicated that expenditures will be less than budgeted for 2006-07.

Cash forward balances will be included on the reports going forward. We have $126M in reserves which is 7.4% of the total budget.

Carry forward is not recognized as a current revenue as it is revenue received in the prior year. However, when we spend carry forward dollars, the expenditures are considered current year expenditures. Therefore, current revenue and current expenditures will not match up due to carry forward. This is a P/L issue for the University and we are working on ways to minimize the issue.

Ms. Alexander presented and reviewed the reconciliation report.

Trustee Arnold wants to see us implement a red flag report – Trustees need to know where and when there is a problem.

Trustee Ramil referred to twelve financial measures and stated there are 5 or 6 key issues for the financial health of the university and for each measure we should use a red, yellow or green flag. Dr. Carlucci will have the Budget and Finance Councils work on this.

Dr. Carlucci noted that currently departments and DSOs have to explain variances on a quarterly basis and any variance that cannot be reasonably explained is a red flag.

c. USF DSO Quarterly Financial Reports

Eric Walden presented the USF DSO Quarterly Financial Reports. The DSO and USF reports have been reviewed and accepted by the Finance Council. Reporting is consistent for DSOs and USF. Four DSOs show deficits/losses for quarter 2. All losses will be cleared by the end of the year.

The Foundation shows an increase in revenue and a decrease in expenditures. Long-term debt in the Foundation is the ICA facility – this did not move to the Financing Corp. More debt is anticipated with Athletics redistricting project. Will decide where to put the debt at that time. Also, plan was to pay off the debt from contributions – this has not happened yet.
UMSA and MSSC have healthy balance sheets. Cash deficits due to large accounts receivables. Medicaid payments are very slow – nature of the business. Financial and accrual status is fine.

New DSO will begin on July 1 – Health Professions Conferencing Center (HPCC). CPD (Continuing Professional Development) activity, currently a part of MSSC, will move from MSSC into the HPCC DSO.

For the Research Foundation, intellectual property revenues are double last year and rents have increased.

The SunDome had a surplus from the prior year – its Board mandated its use for repairs and renovations to the facility. The Sun Dome payroll goes live in PeopleSoft tomorrow. Financials in PeopleSoft go live in July.

Charter School projects small surplus at the end of the year.

IV. Transition to Electronic Financial Transactions

Nick Trivunovich gave an update on the Transition to Electronic Financial Transactions.

V. Investment Consulting Services ITN

Item discussed at beginning of meeting – see page 1.

Other

Chair Law asked if there was any other business.

Having no further business, Chair Law adjourned the Finance and Audit Workgroup meeting at 12:43pm.