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University of South Carolina
BOARD OF TRUSTEES

Audit and Compliance Committee

June 15, 2012

The Audit and Compliance Committee of the University of South Carolina met on Friday, June 15, 2012, at 9:00 a.m. in the 1600 Hampton Street Board Room.

Members present were: Mr. J. Egerton Burroughs, Chairman; Mr. Chuck Allen; Mr. W. Lee Bussell, Sr.; Mr. Hubert F. Mobley; Mr. Thad H. Westbrook; Mr. Mack I. Whittle, Jr.; Mr. Charles H. Williams; Mr. Eugene P. Warr, Jr., Board Vice Chairman; and Mr. Miles Loadholt, Board Chairman. Dr. C. Dorn Smith, III was absent.

Other Board members present were: Mr. Herbert C. Adams; Mr. Mark W. Buyck, Jr.; Mr. Thomas C. Cofield; Mr. William C. Hubbard; Mr. William W. Jones, Jr.; Mr. Toney J. Lister; Ms. Leah B. Moody; and Mr. John C. von Lehe, Jr.

Others present were: President Harris Pastides; Secretary Amy E. Stone; Vice President for Academic Affairs and Provost Michael D. Amiridis; Chief Financial Officer Edward L. Walton; Vice President for Student Affairs and Vice Provost for Academic Support Dennis A. Pruitt; Vice President for Human Resources Chris Byrd; Vice President for Information Technology and Chief Information Officer William F. Hogue; Vice President of Development and Alumni Relations Michelle D. Dodenhoff; Vice President for Communications Luanne Lawrence; General Counsel Walter (Terry) H. Parham; Associate Vice President for Finance and Budget Director Leslie Brunelli; Associate Vice President for Business Affairs, Finance and Planning Division, Helen T. Zeigler; Associate Vice President for Administration, Division of Student Affairs and Academic Support, Stacey Bradley; Associate Vice President for Business and Finance and Medical Business Affairs Jeffrey L. Perkins; Associate Vice President for Housing and Student Development Gene Luna; Senior Vice Provost and Director of USC System Planning Christine W. Curtis; University Treasurer Susan D. Hanna; Dean of the College of Arts and Sciences Mary Anne Fitzpatrick; Director of Athletics Eric C. Hyman; Director of the Department of Internal Audit Phil Iapalucci; Director of State Relations Trey Walker; Associate Athletics Director Marcy Girtton; Chief Financial Officer, Department of Athletics, Jeff Tallant; Associate Budget Director Harry Bell; Director of Capital Budgets and Financing Charles FitzSimons; Chief Financial Officer, University Foundations, Russell H. Meekins; Controller Patrick Lardner; Special Assistant to the President J. Cantey Heath, Jr.; Executive Director, Student Health Services, Debbie Beck; Director of Financial Reporting Mary Peak; Director of Governmental and Community Relations and Legislative Liaison Shirley D. Mills; Director of News and Internal Communications, Division of Communications Wesley T. Hickman; Risk Manager, Division of Environmental Health and Safety and Risk Management, Brian Hann; Professor in the Department of Psychology, College of Arts and Sciences, and Chair of the Faculty Senate Sandra J. Kelly; Student Government Association President Kenny Tracy; Tom McNeish and Brian D'Amico with the outside audit firm Elliott Davis, LLC; University Technology Services Production Manager Justin Johnson; Board staff members Debra Allen, Terri

Saxon and Vera Stone.

Chairman Burroughs called the meeting to order, welcomed those in attendance and asked them to introduce themselves. Mr. Hickman introduced members of the media who were in attendance: Andy Shane, The State Newspaper; and Sydney Patterson, The Daily Gamecock.

Chairman Burroughs stated that the agenda had been posted and the press had been notified as required by the Freedom of Information Act; the agenda and materials had been e-mailed to the Committee members; and a quorum was present to conduct business.

Chairman Burroughs called for a motion to enter Executive Session for a personnel matter. Mr. Westbrook moved to enter Executive Session and Mr. Mobley seconded the motion. The Board, President Pastides, and Secretary Stone were asked to remain.

Return to Open Session

I. Internal Audits: Chairman Burroughs called on Mr. Iapalucci to present the Internal Audits.

A. Williams-Brice Stadium Insurance Confirmation: This is the first time this type of engagement had been performed – the purpose of which was to confirm liability insurance coverage of vendors and service providers who provide essential support to the Williams-Brice Stadium operation. The engagement procedures and objectives were designed to:

Identify stadium vendors and service providers, confirm the existence of liability insurance coverage, and build a comprehensive database to assist Athletics administration.

With the assistance of Risk Management, determine whether stadium vendors and service providers comply with the University insurance requirements as set forth in executed contracts or purchase orders.

Mr. Iapalucci reported that out of the 56 third-party vendors only 4 did not comply, which represented approximately 80 percent compliance. He considered these results very good, especially considering the economic climate.

B. Barnes and Noble College Booksellers Contract: As part of an effort to provide value-added assurance services to the University, an audit was conducted to determine adherence to contractual terms of the executed agreement with the Barnes and Noble College Booksellers, Inc. store operation. This audit's procedures and objectives were designed to:

Obtain a sufficient understanding of the processes and controls existing within the Barnes and Noble stores operating on the USC Columbia campus.

Determine whether Barnes and Noble's current accounting and financial reporting processes, as well as related business practices, are in accordance with terms set forth in the contract.

Engage the office of Risk Management to assess compliance with terms of the contract pertaining to insurance (e.g., general liability and workers' compensation) and health and safety.

Mr. Iapalucci stated that relative to the contract, Barnes and Noble was in compliance; and that there were no significant or material deviations from the contract. Their commissions to the University had increased each year. He noted that they had been a great strategic partner for the University.

C. Student Health Services: A comprehensive audit was conducted of the financial activity, business practices, adherence to departmental and institutional policies, and underlying control environment of the University's Student Health Services. This audit's procedures and objectives were designed to:

Obtain and document a sufficient understanding of the processes and controls existing within Student Health Services.

Determine whether Student Health Services' current accounting and financial reporting processes, as well as related business practices, are in accordance with the University's and department's established policies, procedures, and best practices.

Recommend appropriate and cost-effective measures to enhance compliance and strengthen the department's underlying internal control environment.

In collaboration with the Office of Risk Management, determine if risks or insurance requirements specific to Student Health Services are being properly managed.

D. Tracking Report: There was one outstanding finding, over six months old, in the Payroll and in the Graduate School audits. Good progress had been made on these findings and they were expected to be resolved in the near future.

Chairman Burroughs commended Mr. Iapalucci for his reports, stating that the information was very helpful and the reports "very well done."

II. External Audit Matters:

A. Medical Education Trust: Chairman Burroughs called on Mr. Walton who invited Mr. Perkins to brief the Committee on the status of the USC School of Medical Education Trust. Mr. Perkins stated that they were currently in the middle of their audit, from which they did not anticipate any surprises. He anticipated having issued financial statements by the end of the summer; and a new electronic medical records and practice management system implemented by early Fall 2012. They were also in the process of converting their calendar year to the University's fiscal year, and of hiring a Director of Finance and Accounting to act as a controller for the Trust.

B. Pension Obligation Financial Reporting Disclosure: Mr. Walton called on Mr. McNeish from Elliott Davis. He explained that the Governmental Accounting Standards Board (GASB) was still considering whether to implement this new standard. The significance of the standard was the potential it could have on the University's balance sheet, by increasing its liability. Although the South Carolina Retirement System had expressed its opposition to this standard to GASB, Mr. McNeish felt it was likely to be approved and he wanted the Committee to know.

C. Five-Year Projection of Revenue and Expenses (Proposed Supplemental Disclosure):

Mr. McNeish stated that the GASB exposure draft would require a five-year plan which would entail additional time and resources by the University to comply. He said that he would keep the Committee informed on this proposed requirement.

Chairman Burroughs asked Mr. McNeish to comment on the University's Comprehensive Annual Financial Report (CAFR). He responded that it was commendable and definitely not typical for the University to earn the "Certificate of Achievement for Excellence in Financial Reporting" from the Government Finance Officers Associations (GFOA) on its first CAFR submission. This achievement is the gold standard in

financial reporting and marks an important milestone for the University. Mr. Burroughs asked that everyone give a round of applause to those who made this award possible.

III. Review Board and President Expenditures:

Chairman Burroughs called on Mrs. Hanna who stated that the Committee had received the 3rd Quarter Report in their meeting packet. These reports were accepted as information.

Mr. Whittle requested that in future reports Mrs. Hanna include the prior year's budget status.

Chairman Burroughs commended Mrs. Hanna on putting the report together.

IV. Action Items:

A. Approve Designated Funds FY 2012-2013 Budget: Chairman Burroughs called on Ms. Brunelli, who reported that the FY 2013 Designated Funds Budget was \$3,472,900; with \$506,400 approved for the "R" Funds (Board of Trustees' Controlled Funds from Auxiliary Enterprise Operations). The majority of the budget provides funding for scholarships.

Ms. Brunelli reported that they were requesting the FY 2012 Designated Funds Budget be amended to include \$100,000 additional funding for the Office of the Chief Financial Officer. She explained that these dollars were remaining from the previous budget and could be moved forward into the new budget. The increase would be from \$23,600 to \$123,600. This will cover contractual matters.

Mr. Williams moved to recommend the budget to the Executive Committee for inclusion in the University's FY 2012-2013 Budget. Mr. Whittle seconded the motion. The vote was taken and the motion carried.

B. Approve Internal FY 2012-2013 Audit Budget: Chairman Burroughs called on Mr. Iapalucci who stated that the proposed budget resources were consistent with prior year funding. He highlighted several budget matters related to the department's continued effort to professionally evolve.

Mr. Iapalucci explained that the Office of the University's Chief Financial Officer established a junior analyst development program to recruit financial/business professionals to the Columbia campus. The program is intended to expose and train new professionals regarding the business and accounting knowledge that is specific to higher education. The program will rotate these new employees through a number of core university business functions including the audit function. Each junior analyst will spend approximately six months in a particular function. The CFO is moving aggressively to hire four junior analysts. This first group will include one member to be assigned to Audit and Advisory Services. Consequently, that department's head count will increase by one this year. However, the CFO agreed to absorb all costs (including a computer laptop) of this new employee.

Mr. Whittle asked Mr. Iapalucci, based on his experience at other Universities, if he was comfortable with the funding and staffing level for his department. He responded yes, based on recent benchmarking data. He explained, however, that in the next fiscal year he would develop and begin implementing a plan to address IT audit coverage. This coverage needed to encompass implementation of the OneCarolina system as well as traditional IT engagements. The IT audit coverage would necessitate the hiring of a seasoned IT professional. More precisely, this individual would work with UTS on various IT security initiatives as well as

partner with financial auditors on the various academic and business audit engagements.

Chairman Burroughs called for a motion to approve the FY 2012-2013 Internal Audit Budget, as recommended, for inclusion in the Executive Committee's budget presentation to the full Board. Mr. Whittle so moved. Mr. Westbrook seconded the motion. The vote was taken, and the motion carried.

C. Approve Audit and Compliance Committee Matrix: Mr. Walton explained that the Matrix was a schedule for addressing the responsibilities assigned to the Audit and Compliance Committee through their Charter.

Mr. Whittle asked if there had been any response to the "Whistleblower Policy" (BTRU 1.22 Reporting Violations of State and Federal Laws or Regulations). Following some discussion, the Committee asked Mr. Iapalucci to report to the Committee at their August meeting any activity regarding this policy.

Chairman Burroughs called for a motion to adopt the Audit and Compliance Committee Matrix as presented. Mr. Whittle so moved and Mr. Westbrook seconded the motion. The vote was taken, and the motion carried.

D. Approve Audit and Compliance Committee Charter: Mr. Walton explained that there were no changes to the prior year's Charter. Chairman Burroughs stated there was not a named Board of Trustees "Governance" Committee, and that he felt the responsibilities of such a committee should be included in the Audit and Compliance Committee Charter. He suggested that at a later date, the Charter be amended to include "Governance" responsibilities.

Mr. Adams explained that the Board of Trustees Executive Committee served as the "Governance Committee." Mr. Whittle suggested that other Universities' bylaws be reviewed to gauge their committee structures.

Secretary Stone clarified that interpretation of the Board of Trustees current Bylaws was that the responsibility of "Governance" fell under the Executive Committee. She also reminded the Committee that, as a follow up to the Boards April 2012 retreat, her staff was currently conducting research of peer and peer aspirant institutions regarding board bylaws, committee structures, committee charters and mission statements. Those findings will be provided to the Board by the end of the summer.

Chairman Burroughs called for a motion to adopt the Audit and Compliance Committee Charter as presented and send to the full Board for consideration. Mr. Whittle so moved and Mr. Westbrook seconded the motion. The vote was taken, and the motion carried.

E. 2012/2013 Internal Audit Plan: Mr. Iapalucci explained that the components of the plan were a guide for his department for the next year.

Chairman Burroughs stated that this plan was accepted as information; and noted that Mr. Iapalucci and his staff were doing a great job. He said that Mr. Iapalucci had created a great change in the atmosphere of the department in that they were now perceived as a part of the University team to provide assistance and guidance; and not a "threat."

VI. Other Matters:

There were no other matters to be brought before the Committee.

VII. Adjournment:

Since there were no other matters to come before the Committee, Chairman Burroughs called for the meeting to adjourn at 12:30 pm.

Respectfully submitted,

Amy E. Stone
Secretary