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University of South Carolina
BOARD OF TRUSTEES

Audit and Compliance Committee

July 10, 2013

The Audit and Compliance Committee of the University of South Carolina met on Wednesday, July 10, 2013, at 10:00 a.m. in the 1600 Hampton Street Board Room.

Members present were: Mr. J. Egerton Burroughs, Chairman; Mr. Chuck Allen; Mr. Robert E. Brown; Mr. Hubert F. Mobley; Mr. Thad H. Westbrook; Mr. Mack I. Whittle, Jr.; and Mr. Eugene P. Warr, Jr., Board Chairman. Mr. Charles H. Williams joined the meeting by telephone. Dr. C. Dorn Smith III was absent.

Other Board members present were: Mr. Thomas C. Cofield; Mr. A. C. "Bubba" Fennell III. Mr. William W. Jones, Jr. joined the meeting by telephone.

Chair of the Faculty Senate James H. Knapp and Student Government Association President Chase Mizzell were present.

Others present were: President Harris Pastides; Secretary Amy E. Stone; Chief Financial Officer Edward L. Walton; General Counsel Walter (Terry) H. Parham; Vice President for Student Affairs and Vice Provost for Academic Support Dennis A. Pruitt; Vice President for Human Resources Chris Byrd; Interim Vice President for Communications Wes Hickman; Interim Vice President of Development and Alumni Relations Susan Lee; Associate Vice President for Finance and Budget Director Leslie Brunelli; University Treasurer Susan D. Hanna; Palmetto College Chancellor Susan Elkins; USC Lancaster Dean Walter Collins, III; Vice Provost and Director, International Programs Timothy Doupnik; Director of Capital Budgets and Financing Charles FitzSimons; Director of the Internal Audit Department Phil Iapalucci; University Controller Jennifer Muir; Chief Financial Officer, Department of Athletics, Jeff Tallant; Senior Associate Dean for Liberal Arts Anne Bezuidenhout; Director of Financial Reporting Mary Peak; Director, Study Abroad, Jennifer Engel; Special Assistant to the President J. Cantey Heath, Jr.; Archaeologist and Instructor, Anthropology & Archaeology, USC Lancaster, Christopher Judge; Sandy Smith, University Controller's Office; Tom McNeish, and Brian D'Amico, with the outside audit firm Elliott Davis, LLC; University Technology Services Production Manager Matt Warthen; Board staff members Debra Allen and Terri Saxon.

Chairman Burroughs called the meeting to order, welcomed those in attendance and asked them to introduce themselves. Mr. Hickman introduced Amanda Coyne, *The State* and *The Daily Gamecock*; and Rick Owensby, WLTX TV.

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 circulated to the Committee members; and a quorum was present to conduct business. He noted that an Executive Session would be held following presentation of the Open Session agenda items.

Open Session

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

A. Darla Moore School of Business Capital Project – Mr. Iapalucci explained that as part of an effort to provide value-added assurance services to the University's departments, the Internal Audit Department staff performed a risk-based audit of the financial activity, business practices, adherence to departmental and institutional policies, and underlying control environment in the construction of the new Darla Moore School of Business (DMSB) through April 30, 2013. This was the first progress report on the \$100 million capital project.

The audit focused on four areas: contractor payment applications (\$38,058,042); change orders; architectural and construction management fees; and insurance and bonding coverage. The audit staff found no material weaknesses during the course of its audit process.

Mr. Iapalucci noted that the builder's risk insurance provided by the State did not provide coverage of construction materials stored off-site.; however, the contractor's insurance does. Discussion ensued regarding current insurance coverages for the project, and when the next progress report should be conducted. Mr. Jones suggested and the Chairman agreed that project updates should be provided quarterly. Mr. Iapalucci agreed to provide the Committee with a quarterly update at the October meeting and a formal report in early 2014.

Chairman Burroughs asked Mr. Walton to update the Committee on the project. He reported that the original project completion date had been moved from December 2013 to May 2014. A cost savings would be realized from this date change, since the cost to rush the project was eliminated, and the National Advocacy Center would not be ready to proceed with renovating the Close-Hipp Building by December 2013.

Chairman Burroughs also asked Mr. Walton how he had addressed change orders. He explained that, except for the first two, the major change orders had netted to the University's benefit. The first two

were project change-of-scope increases from the original project cost of \$75 to \$90 million, and finally to \$106,500,000. These two changes also increased the architect fees and project management fees.

Mr. Whittle asked if the message was that the project was both on time and on budget and Mr. Walton responded yes. He said that move-in to the new DMSB was scheduled for May 2014.

Chairman Burroughs congratulated Mr. Iapalucci and his staff for their pro-active audit planning.

B. Study Abroad Office – Mr. Iapalucci reported the strong growth in student participation in study abroad programs. This growth was consistent with the Provost's strategic goal; however, the Study Abroad Office (SAO) resources were “spread thin.” Mr. Westbrook asked for clarification of those resources. Dr. Engel was invited to respond. She explained that one shortage was in “human” resources. This was evident by the fact that the University's advisor-student ratio was higher than most of its peer and peer-aspirant institutions. Also, the unit's current financial resources limited its recruitment goals and challenged its ability to offer quality programs.

Dr. Engel responded to questions from Committee members regarding program options, student participation, insurance coverages, and funding. Mr. Jones requested additional information regarding certain elements of student insurance coverage. Mr. Walton and Mr. Iapalucci agreed to provide more information.

C. USC Lancaster Native American Collections – Mr. Iapalucci stated that the fieldwork phase of the audit was complete, and that his staff was in the process of finalizing the audit report. He explained that given the unique nature of the special collection items, audit inventory procedures included confirmation of the existence of collection pieces. Moreover, the sample selection process included confirming that the 25 most valuable pieces of the collection were in place. These 25 pieces are worth approximately \$100,000. The entire collection has approximately 1,400 unique items.

Mr. Whittle asked who appraised the items; if they were insured; how they were insured; and why USC Lancaster was audited rather than McKissick Museum, which houses more valuable collection pieces. Mr. Iapalucci responded that he selected USC Lancaster to “test-pilot” a special collection audit on a smaller scale. He explained that it was cost prohibitive to appraise every item in a collection, and that some of the values came from the “donated value” or the “purchase value.” Mr. Whittle voiced support for this audit focus and encouraged the department to look at valuable collections on the Columbia campus. Similarly, Mr. Mobley emphasized the unique nature of special collections and welcomed the audit emphasis.

Because of the uniqueness of the work, Mr. Iapalucci noted that he had collaborated with University Police on this audit. He concluded that the audit report would be ready for the Committee's October meeting and should answer the questions raised in the meeting.

D. Tracking Report – Mr. Iapalucci said that he anticipated eighty percent of the outstanding audit findings would be cleared by the end of August. He was fairly confident, based on the progress reports he had received, that good progress was being made on resolving the findings.

Chairman Burroughs thanked Mr. Iapalucci and stated that these reports were received as information.

II. External Audit Matters – Elliott Davis

Chairman Burroughs called on Mr. Tom McNeish with Elliott Davis to present the next three items of business.

A. Audit Opinion Standards – Mr. McNeish reviewed the scope of the audit process and the communication process for external audit matters.

B. New Reporting Disclosures: Service Concession Agreement – Mr. McNeish discussed the Governmental Accounting Standards Board (GASB) reporting for Service Concession Arrangements (GASB # 60) and how it would affect the University.

C. Pension Obligation – Mr. McNeish discussed in much detail the GASB standard that requires the reporting of unfunded liabilities on the University's balance sheet related to pensions. The University will not control management of this liability, since the calculations will be done by the State Retirement System. Mr. McNeish also reviewed other GASB standard changes, including the new "clarity" standards.

Chairman Burroughs thanked Mr. McNeish and stated that these reports were received as information.

III. Audit and Compliance Committee Planning Matrix – Chairman Burroughs asked for comments on the matrix that the Committee had been provided as information. There were none.

IV. Audit and Compliance Committee Charter, Annual Review – Chairman Burroughs stated that there was no reason to discuss its charter again, since the Committee had already done so.

V. 2013-2014 Internal Audit Plan – Mr. Iapalucci stated that a preliminary plan was provided to the Committee at its March 2013 meeting. Following feedback from selected University administrators and members of the Audit and Compliance Committee, the final plan was presented. Mr. Iapalucci

reviewed the audit categories and operating units that were included in the plan, and noted the previous audit dates.

An IT auditor was recently hired to enable the Internal Audit Department to systematically review data privacy processes and standards across the University. The Department is also involved with internal control training and the development of internal control maps for University departments.

Mr. Iapalucci explained that his department has focused on cardholder and liaison training of the University Purchasing Card Program, in addition to monitoring card usage. Due to the success of purchasing card monitoring, his department currently is trying to apply the same monitoring process to “cash receipts.” There are more than 300 campus locations that accept cash payments.

Chairman Burroughs thanked Mr. Iapalucci for his informative reports.

VI. Other Matters:

Chairman Burroughs called for any other matters to come before the Committee.

Mr. Warr updated the Committee on the Director of Internal Audit Search. He said that the Search Committee had secured the services of the Parker Executive Search firm to assist in the effort. The plan is to begin interviews in September.

Chairman Burroughs recommended that Mr. Iapalucci and the University’s management team provide educational training offerings for Committee members. Such training as well as a review of the Committee’s progress was especially appropriate as the Committee selected a new Chair.

Chairman Burroughs called for a motion to enter Executive Session for receipt of legal advice. Mr. Whittle moved to enter Executive Session and Mr. Westbrook seconded the motion. The Trustees, President Pastides, Secretary Stone, Mr. Walton, Mr. Parham, Ms. Brunelli, and Mr. Iapalucci were asked to remain.

Return to Open Session

Adjournment – Since there were no other matters to come before the Committee, Chairman Burroughs called for the meeting to adjourn at 12:25 p.m.

Respectfully submitted,



Amy E. Stone
Secretary