

University of South Carolina
BOARD OF TRUSTEES

Audit and Compliance Committee

March 22, 2013

The Audit and Compliance Committee of the University of South Carolina met on Friday, March 22, 2013, at 9:00 a.m. in the 1600 Hampton Street Board Room.

Members present were: Mr. Hubert F. Mobley, presiding chair; Mr. Chuck Allen; Mr. Robert E. Brown; Dr. C. Dorn Smith III; Mr. Thad H. Westbrook; Mr. Mack I. Whittle, Jr.; Mr. Charles H. Williams; Mr. Eugene P. Warr, Jr., Board Chairman; and Mr. John C. von Lehe, Jr., Board Vice Chairman. Mr. J. Egerton Burroughs, Chairman was absent.

Other Board members present were: Mr. Mark W. Buyck, Jr.; Mr. Thomas C. Cofield; Mr. A. C. "Bubba" Fennell III; Dr. C. Edward Floyd; Mr. William W. Jones, Jr.; Mr. Toney J. Lister; Mr. Miles Loadholt; and Ms. Leah B. Moody.

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 of Development and Alumni Relations Michelle D. Dodenhoff; Vice President for Research Prakash Nagarkatti; General Counsel Walter (Terry) H. Parham; Associate Vice President for Finance and Budget Director Leslie Brunelli; Associate Vice President for Administration, Division of Student Affairs and Academic Support, Stacey Bradley; Senior Vice Provost and Director of Strategic Planning Christine W. Curtis; Vice Provost and Executive Dean, Palmetto College, Chris Plyler; Vice Provost and Dean of Undergraduate Studies Helen Doerpinghaus; Associate Vice President for Transportation and Logistical Relations Derrick Huggins; University Treasurer Susan D. Hanna; Palmetto College Chancellor Susan Elkins; Executive Dean, College of Arts and Sciences Roger Sawyer; Dean of the School of Medicine Richard Hoppmann; Athletics Director Ray Tanner; Director of the Department of Internal Audit Phil Iapalucci; Director of State Relations Trey Walker; Director of Capital Budgets and Financing Charles FitzSimons; Chief Financial Officer, Department of Athletics, Jeff Tallant; Director, Academic Programs and Academic Common Market Institutional Coordinator, Office of the Provost, Kristia H. Finnigan; Director of Distributed Learning Support Services, University

Technology Services, Steve Adams; Vice Chancellor for Business and Finance, USC Aiken, Joe Sobieralski; Interim Vice Chancellor, University Center Greenville, USC Upstate, Warren J. Carson; Mary Black School of Nursing Interim Dean, USC Upstate, Katharine Gibb; University Controller Jennifer Muir; Special Assistant to the President J. Cantey Heath, Jr.; Associate Director of Planning and Assessment Cameron Howell; Director of Financial Reporting Mary Peak; Risk Manager, Division of Environmental Health and Safety and Risk Management, Brian Hann; Director of Business and Human Resources, Palmetto College, Pam Hayes; Director of Regional Campuses Central Financial Aid, Palmetto College, Tabatha McAllister; Director of News and Internal Communications, Division of Communications Wesley T. Hickman; Accountant and Fiscal Manager, Vehicle Management and Parking Services, Thomas L. Hennix; Ann Smith and Sandy Smith, University Controller's Office; Professor in the Department of Psychology, College of Arts and Sciences, and Chair of the Faculty Senate Sandra J. Kelly; Student Government Association President Chase Mizzell; Wife of Board member Charles Williams, Karen Williams; Tom McNeish, and Brian D'Amico, with the outside audit firm Elliott Davis, LLC; University Technology Services Matt Warthen; Board staff members Debra Allen and Terri Saxon.

Mr. Mobley called the meeting to order, welcomed those in attendance and asked them to introduce themselves. Mr. Hickman introduced Thad Moore, *The Daily Gamecock*.

Mr. Mobley 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.

Mr. Mobley called for a motion to enter Executive Session for receipt of legal advice, a contractual matter, and personnel matters. He anticipated that the Executive Session would last approximately an hour. Dr. Smith 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

I. External Audits – Elliott Davis

Mr. Mobley called on Mr. Tom McNeish, who explained that all three documents, with year ended June 30, 2012, were a result of separate audit functions the University had asked them to perform.

A. Management Letter for FY2012 University Audit – Mr. McNeish stated that the good news was that in association with the financial statement audit, there was only one issue identified in the management letter; and it was currently being addressed. He credited that to University staff in the Finance Department with consistently strengthening the University's internal controls. The current and prior years issues most probably would be addressed once the University's new general ledger and Enterprise Resource Planning (ERP) system was operational.

B. Innovista Garages, Year Ended June 30, 2012 – Mr. McNeish explained that his firm was requested to prepare financial statements of the Horizon and Discovery garages, to present the financial position and cash flow, of only that portion of the business-type activities of the University that is attributable to the transactions of the garages. The purpose of the engagement was to see to what extent the University was subsidizing the two garages; especially related to the debt service. It is the hope that the increase in the garage revenues would service their debt.

In response to questions from Mr. Whittle, Mr. McNeish elaborated on the report details. He stated that the University was currently in compliance with the debt covenant.

Mr. von Lehe asked what the current occupancy ratio was for the two garages. Mr. Huggins responded that the Horizon Garage was at 65 percent and the Discovery Garage was at 50 percent occupancy. However, he anticipated those percentages to increase within the next two years.

C. Athletics Department Agreed Upon Procedures, Year Ended June 30, 2012

Mr. McNeish explained that the NCAA Bylaws required that certain financial procedures be performed related to the Athletics Department. In the past, the University had included this process in the full University Financial Statement, which met NCAA requirements. It had been determined that it would be more effective, and more in the spirit of the NCAA Bylaws, to use the agreed-upon procedures format, which is more specific. This was the first year the University had engaged Elliott Davis to perform this function.

Mr. McNeish reported that the positive news was that based on the procedures performed, there were not any glaring compliance issues found.

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

II. Internal Audits

Mr. Mobley called on Mr. Iapalucci to present the Internal Audits.

A. Union Campus – Mr. Iapalucci said that he was very pleased with the number of internal control maps that had been completed.

He brought to the Committee's attention one risk – unofficial withdrawals or as referred to by the University "walk-aways." The term refers to individuals who enroll but do not attend the full term. The issue was to minimize the Federal Department of Education Title IV Financial Aid Risk related to these walk-aways; but noted that it was well managed. The University is required to return financial aid in these situations; which requires constant monitoring.

B. Distributed Learning – Two risks noted during the audit process involved the OneCarolina (Banner) Implementation opportunity: Migration of Mission Critical DEMS Database; and Enhanced Distributed Learning Activity Report. Staff was working to address these concerns.

C. Strom Thurmond Wellness and Fitness Center (STWFC) – Mr. Iapalucci noted that their risk-based audit determined that, overall, STWFC was properly managing, in all material aspects, their resources and related risk in accordance with University and departmental policies. The audit noted minor issues that were brought to the attention of management and resolved in the course of the audit.

D. Aiken Athletic Department Agreed Upon Procedures (AUP) – Mr. Iapalucci highlighted that the report was a result of a co-sourcing arrangement with Elliott Davis, in which the University's Internal Audit Department conducted the field work. This arrangement saved the University in external audit fees.

Mr. Iapalucci explained that USC Aiken was a NCAA Division II school, and as such were required to conduct an AUP report every three years.

That this was the first instance in which the University co-sourced with Elliott Davis and he thought it spoke well of the University's capabilities.

E. Tracking Report – Mr. Iapalucci stated that he was satisfied with the contents of the report. However, due to turnover in the Payroll Department there had been some slippage in addressing outstanding audit issues.

III. Review Board and President Expenditures

Mr. Mobley stated that Mr. Iapalucci had provided the Committee the 1st and 2nd Quarter Reports. These reports were accepted as information.

IV. 2013-2014 Internal Audit Plan – Mr. Iapalucci stated that the plan was a preliminary one. A proposed final report would be provided to the committee in June, following feedback from selected university administrators and members of the Audit and Compliance Committee. A request for the Committee’s feedback would be sent to the Committee in the very near future.

Mr. Iapalucci thanked Ms. Brunelli for providing for two junior analysts to his staff, which had allowed his office to accomplish more work.

Mr. Mobley thanked Mr. Iapalucci for his informative reports.

V. Appointment of Search Committee for Internal Auditor

Mr. Mobley called on Mr. Warr who announced the search committee members:

Gene Warr – Board of Trustees Chairman
John von Lehe – Board of Trustees Vice Chairman
Egerton Burroughs – Audit and Compliance Committee Chair
Bubba Fennell – Member
Hugh Mobley – Member


VI. Other Matters:

Mr. Mobley called for any other matters to come before the Committee.

VII. Adjournment:

Since there were no other matters to come before the Committee, Mr. Mobley called for the meeting to adjourn at 11:30 a.m.

Respectfully submitted,


Amy E. Stone
Secretary