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University of South Carolina

BOARD OF TRUSTEES

Audit and Compliance Committee Retreat

February 7, 2014

The Audit and Compliance Committee of the University of South Carolina Board of Trustees held a retreat at 8:55 a.m. on Friday, February 7, 2014, 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; 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.

Other Board members present were: Mr. Thomas C. Cofield; Mr. A. C. "Bubba" Fennell III; and Ms. Leah B. Moody.

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 Information Technology and Chief Information Officer William F. Hogue; Vice President for Human Resources Chris Byrd; Interim Vice President for Communications Wes Hickman; Athletics Director Ray Tanner; Associate Vice President for Business and Finance and University Finance Director Leslie Brunelli; Executive Director of Internal Audit Pam Doran; University Controller Jennifer Muir; Associate Vice President for Transportation and Logistical Relations Derrick Huggins; Associate Vice President and Deputy Chief Information Officer, Division of Information Technology, Jeff Farnham; Chief Financial Officer, Department of Athletics, Jeff Tallant; Director of Facilities Planning and Construction, Division of Facilities, Jeff Lamberson; Director of Law Enforcement and Safety Chris L. Wuchenich; Risk Manager, Division of Environmental Health and Safety and Risk Management, Brian Hann; Emergency

Management Coordinator, Division of Law Enforcement and Safety, Vinny Bocchino; Director of the Office of Research Compliance, Office of the Vice President for Research, Thomas Coggins; Director of Parking Services, Division of Vehicle Management and Parking Services, Bill Baker; Director of State Relations Trey Walker; Special Assistant to the President J. Cantey Heath, Jr.; Director of General Ledger Accounting, Controller's Office, Mary Peak; Director of Financial Reporting,

Controller's Office, Sandy Smith; Accountant and Fiscal Manager, Vehicle Management and Parking Services, Thomas L. Hennix; Tom McNeish and Brian D'Amico with the audit firm of Elliott Davis, LLC; University Technology Services Production Manager Matt Warthen; Board staff members Debra Allen and Terri Saxon.

Chairman Burroughs called the retreat to order, welcomed those in attendance and asked them to introduce themselves. No members of the media were present.

Chairman Burroughs stated that this was a retreat of the Audit and Compliance Committee and that no action would be taken. He also stated that an agenda and materials had been distributed to committee members and that the press had been notified as required by the Freedom of Information Act.

Although Mr. Iapalucci was not present, Chairman Burroughs thanked him for his hard work as the Director of Internal Audit and wished him and his family well in their new ventures. He then introduced Pam Doran, the new Executive Director of Internal Audit.

Chairman Burroughs explained the role of the Audit and Compliance Committee and said that going forward the most interesting topic his committee would consider would be the report being prepared on the University's administrative overhead and the allocation of those funds to individual units.

### Open Session

External Audits (A copy of each audit and financial statement is posted on the Board Portal.)

Chairman Burroughs called on Mr. McNeish, who presented the financial statements and audits.

- Report of Financial Statements: USC Aiken, USC Beaufort, USC Upstate, and USC Columbia and Regional Campuses – The objective of these audits was to determine if the financial statements were fairly stated, in all material respects, in accordance with generally accepted accounting principles. The primary user of these financial audits is the Southern Association of Colleges and Schools (SACS) with the emphasis on assessment of internal controls over financial reporting.
- Single Audit (OMB) A-133 – This audit is to determine if the University is materially in compliance with requirements of its major federal programs. It is used by federal granting agencies.
- Athletics Agreed Upon Procedures for FY2013 (NCAA Report) – This is a report on procedures promulgated by the National Collegiate Athletic Association (NCAA).
- Horizon and Discovery Garages Financial Statement and Management Letter – Mr. McNeish reported that the salary and benefit allocation issues, discovered during the audit, had been corrected.

- System Wide University Audit Management Letter – Management is in the process of addressing the four exceptions that were noted during the course of this audit.

#### Changes in Accounting Standards and Systems

- GASB 68 (Retirement System Pension Liability) – The University, since it participates in the South Carolina Retirement System (SCRC), will be required to recognize a liability for its proportionate share of the state’s unfunded pension. An employer’s portion is required to be determined on a basis that is consistent with the manner in which contributions to the pension plan are determined. The use of the employer’s projected long-term contribution effort is encouraged as compared to the total projected long-term contribution effort of all employers as the basis for determining an employer’s proportion. Although the effective date of this standard is for fiscal 2015, Mr. McNeish encouraged earlier application.

Mr. McNeish explained that managing the liability would be substantially beyond the control of the employers. Implementing the standard should not significantly effect the University’s cash flow. Rating agencies are well aware of the impending change and the effect it will have on the financial statements of employers participating in cost-sharing pension plans. Rating agencies have stated that they will adjust financial statements for discount rates that they consider to be overly aggressive.

Actuaries have now provided SCRS with an example of how they believe a participating employer’s proportionate share of the net pension liability should be calculated, and based on that approach the University’s proportionate share percentage would be  $\$35,070,053/\$909,384,304 = 3.85648$  percent. The SCRS’s latest estimate of the total unfunded liability was \$16,912,625,650. Using those figures, the University’s proportion would be \$652,232,026.

- OneCarolina System Conversion – The Banner system will begin to be utilized as part of the financial closing for FY 2014. The accounts receivable module was one of the first components implemented.

Mr. McNeish reported that audit procedures would begin early in order to gain a sufficient understanding of the processes, procedures and internal controls within the new system; and to design effective audit tests to determine that the accounts receivable application was operating as designed.

Research Compliance – Chairman Burroughs called on Tommy Coggins, who explained the mission, responsibilities and organization of the Office of Research Compliance (ORC). The ORC is responsible for the oversight and management of non-fiscal compliance activities related to sponsored programs and research, including drafting and implementing policy, preparing compliance training programs, and

coordinating several institutional compliance committees.

The ORC responsibilities include: Human Subjects Protection Program and Institutional Review Board; Institutional Responsibility for Animal Care and Use Committee; Conflict of Interest; Institution Biosafety Committee; Misconduct in Research and Scholarship – Policy Development and Oversight;

Oversight for Issues Related to Export Control Regulations; and Coordination of HIPAA Research- Related Compliance Activities.

Internal Audit Discussion – Chairman Burroughs called on Pam Doran.

- Darla Moore School of Business Construction Audit Progress Report III – Ms. Doran stated that the audit period was August 1 – October 31, 2014. The department performed the following procedures: reviewed contractor payment applications and management fees for consistency with the terms and conditions of various contractual arrangements; validated stipulated insurance coverage exists, including Builders Risk and Performance Bonds, as well as adherence with state regulations; reviewed any change orders incurred since the previous report for reasonableness and proper approval; and traced any payment applications made for significant contracts into the general ledger.

The audit determined that, through October 13, 2013, the University Facilities Design and Construction personnel were properly managing the new Darla Moore School of Business project in accordance with contractual terms and conditions, University and department policies, and state regulations.

- Internal Audit Transition – Ms. Doran updated the committee on the state of the transition that she began by defining target goals and existing assets and strengths. She said that she was in the process of establishing an audit universe that would include determining: where the most significant risks were and how well they were controlled; how well audit activities provided adequate coverage of the University’s risks; what methods could be best leveraged by management; and which opportunities existed where internal control advice provided value.

Ms. Doran discussed in detail plans for the department, and her target timeframes, which she described as:

Risk Assessment	Summer 2014
Internal Controls Advisement Plan	Fall 2014
Staffing Plan	Winter 2015
Quality Assurance Review Plan	Spring 2015

Audit and Compliance Committee Updates

- Self-Evaluation Results – Ms. Doran noted that a copy of the evaluation results

was provided to the committee. Of the 10 members of the committee, six responded and the majority of the comments were favorable.

- Matrix Review – Ms. Doran explained that the matrix format was adjusted to better reflect the audit planning process. A copy of the 2013-14 Matrix was provided to the committee as information.
- Charter Review – Chairman Burroughs said that the committee had been provided a copy of the Charter, which had been approved by the committee on March 18, 2011, and the full Board on April 15, 2011. He asked the members to review it and submit any recommendations for changes to Ms. Doran prior to the next committee meeting.

Chairman Burroughs recessed the retreat for lunch. Following lunch, Chairman Burroughs declared the retreat back in session.

#### Motion for Executive Session

Chairman Burroughs stated that there was a need to receive legal advice that was appropriate for discussion in Executive Session. He noted that there was a quorum present. He called for a motion to enter Executive Session. Mr. Mobley so moved and Mr. Brown seconded the motion. The vote was taken and the motion passed.

Chairman Burroughs invited Trustees, President Pastides, Secretary Stone, Mr. Parham, Mr. Walton, and Ms. Doran to remain.

#### Executive Session

#### Return to Open Session

Legislative Update – Chairman Burroughs called on Mr. Walker, who reported on the positive reception of the recent Carolina Day at the Statehouse. He updated the committee on higher education funding.

Finance Initiatives for FY14 and Beyond – Chairman Burroughs called on Mr. Walton and Ms. Brunelli, who gave an in depth report on: Finance Initiatives; Capital Planning, Bond Indebtedness; Bond Indebtedness by Category; State Institution Bonds; USC Columbia Resident and Non-Resident Undergraduate Required Tuition and Fees for 2012-13 to 2013-14; Higher Education Revenue Bonds; Athletic Facilities Revenue Bonds; Historical Indebtedness by Campus; Current Debt Service; Financing Needs; Capital Planning Process; Future Bond Indebtedness; FY 2015 Budget Development; the Junior Financial Analyst Program; and OneCarolina.

Chairman Burroughs commended Mr. Walton and Ms. Brunelli for their report and noted that it was one of the best he had heard as a member of the Board.

Emergency Management – Chairman Burroughs called on Mr. Wuchenich, who briefed the committee on his department’s structure and accomplishments. He then introduced Mr. Bocchino, who explained the make-up of the Emergency Management Team (EMT) and its responsibilities to address weather, accident, and intentional hazards.

The Team’s 2014 plans include: enhancing exercises for the EMT; printing/distributing credentials for University First Responders; writing unit plans for the Emergency Operations Plan; and conducting a functional exercise for EMT and support staff.

SecureCarolina – Chairman Burroughs called on Dr. Hogue and Mr. Farnham. Dr. Hogue explained that SecureCarolina was a twenty-four month initiative to improve and advance information security and privacy at the University. This comprehensive initiative focuses on three key areas: Policy, People, and Systems. The initiative is sponsored by the executive leadership, Internal Audit, and the University Information Security Office. Facilitated by the University’s existing information governance structures (the data trustees and stewards) and enterprise level IT (OneCarolina and UTS), the SecureCarolina projects involve all campuses, colleges, departments, and individuals to make bold improvements in the security of all university information systems and processes.

Dr. Hogue reported on the completed and planned components of the SecureCarolina project, the training efforts and the budget. As of December 2013, \$1.03 million of the \$2.3 million dollars budgeted for SecureCarolina had been spent.

Annual Policy Reviews – Chairman Burroughs called on Ms. Doran, who said the committee had been provided copies of the following four Board of Trustees (BTRU) policies that included her suggested revisions. She noted that the majority of the changes were to clarify the department’s name and her title.

- BTRU 1.06 Internal Audit
- BTRU 1.18 Conflict of Interest
- BTRU 1.22 Reporting of Violations of State & Federal Laws or Regulations
- BTRU 1.24 Internal Control Policy

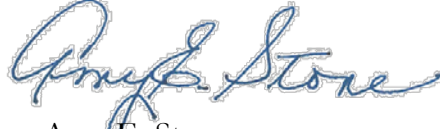
Ms. Doran stated that the policies were provided to the committee for its review and that members should direct any recommended revisions to her attention, prior to the next committee meeting.

Chairman Burroughs thanked everyone for their efforts to make the retreat a success.

Adjournment

Since there were no other matters to come before the committee, Chairman Burroughs called for the retreat to adjourn at 3:10 p.m.

Respectfully submitted,

A handwritten signature in blue ink that reads "Amy E. Stone". The signature is written in a cursive style with a large initial "A".

Amy E. Stone  
Secretary