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University of South Carolina
BOARD OF TRUSTEES

Audit and Compliance Committee

October 4, 2013

The Audit and Compliance Committee of the University of South Carolina met on Friday, October 4, 2013, at 1:05 p.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; and Mr. Charles H. Williams. Dr. C. Dorn Smith III and Mr. Mack I. Whittle, Jr. were absent.

Other Board members present were: Mr. Thomas C. Cofield; Mr. A. C. "Bubba" Fennell III; Mr. Miles Loadholt; and Dr. Mitchell M. Zais.

Student Government President Chase Mizzell was also 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; Vice President of Development and Alumni Relations Jancy Houck; Interim Vice President for Communications Wes Hickman; Associate Vice President for Business and Finance and University Finance Director Leslie Brunelli; Senior Vice Provost and Director of Strategic Planning Christine W. Curtis; University Treasurer Susan D. Hanna; University Controller Jennifer Muir; Associate Vice President for Transportation and Logistical Relations Derrick Huggins; Palmetto College Chancellor Susan Elkins; USC Upstate Chancellor Tom Moore; USC Lancaster Dean Walter Collins III; College of Arts and Sciences Dean Mary Anne Fitzpatrick; Director of Capital Budgets and Financing Charles FitzSimons; Director of the Internal Audit Department Phil Iapalucci; Director of State Relations Trey Walker; Vice Chancellor for Business and Finance, USC Aiken, Joe Sobieralski; Senior Associate Dean for Liberal Arts Anne Bezuidenhout; Special Assistant to the President J. Cantey Heath, Jr.; Risk Manager, Division of Environmental Health and Safety and Risk Management, Brian Hann; Archaeologist and Instructor, Anthropology and Archaeology, USC Lancaster, Christopher Judge; Director of General Ledger Accounting, Controller's Office, Mary Peak; Director of Accounting Services, Controller's Office, Ann

Smith; Director of Financial Reporting, Controller's Office, Sandy Smith; India Gilliam and Kevin O'Brien, financial reporting accountants with the University Controller's Office; Student Government Vice President Ryan Bailey; 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 meeting to order, welcomed those in attendance and asked them to introduce themselves. Mr. Hickman introduced Amanda Coyne with *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 circulated to the committee members; and a quorum was present to conduct business.

Chairman Burroughs thanked Mr. Jones, as Chairman of the Buildings and Grounds Committee, for his Committee's cooperation with the Audit and Compliance Committee regarding the Darla Moore School of Business project and budget updates.

Since Mr. Walton was detained by the news media following the earlier meetings, the order of the meeting was amended.

III. Internal Audits

Chairman Burroughs called on Mr. Iapalucci to present the internal audits.

A. Linguistics Program, USC Columbia College of Arts and Sciences

Mr. Iapalucci noted that audits are conducted following leadership changes to help the new leadership understand what they were inheriting, which was the case with this audit.

Linguistics is an interdisciplinary program within the College of Arts and Sciences. Mr. Iapalucci reported that the audit determined Linguistics personnel were properly managing the program in accordance with established program and University policies and procedures. The audit noted minor issues that when brought to the attention of the management, were resolved during the course of the audit.

B. Darla Moore School of Business Construction Audit - Quarterly Update

This is the second progress report on the \$100 million capital project. The audit focused on four areas for the period May 1, 2013, through July 31, 2013: contractor payment applications (\$9.6 million) remitted; change orders; architectural and construction management fees; and insurance and bonding coverage. No change orders were paid in this period and all insurance coverage certificates were in place. The audit staff found no material weaknesses during the course of the audit process. The committee will receive its next update in the first quarter of 2014.

Discussion ensued regarding the insurance on the construction project. Mr. Iapalucci explained 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.

Mr. Walton reported that the project was both on time and on budget and that move-in to the new Darla Moore School of Business remained scheduled for May 2014.

C. USC Lancaster Native American Pottery Special Collections

Mr. Iapalucci indicated that the Internal Audit Department had developed an audit approach in collaboration with University Risk Management and University Law Enforcement and Safety to examine special collections. The Native American Pottery Collection (estimated value of approximately \$100,000) at Lancaster was selected as a test pilot. The audit approach emphasized reviewing high-value collections. This approach will be applied to a valuable collection at McKissick Museum in Spring 2014.

The Lancaster audit report noted one issue. The Native American Studies Center needs to review and finalize the cataloging information for some of the collection. Lancaster will address this matter with the migration to new collection management software.

D. Tracking Report

Mr. Iapalucci noted significant progress on several previous audit observations. Distributed Learning had addressed its two open items. There had been strong efforts by both the Graduate School and Payroll to implement the necessary changes. Mr. Iapalucci was confident that department management in both areas would have the necessary changes implemented by the fourth quarter.

Chairman Burroughs asked Mr. Iapalucci if there were any reports to the USC Integrity Line that needed to come before the committee. Mr. Iapalucci responded that no financial-related items had been reported. The majority of reports, he said, were personnel matters that were addressed by Mr. Byrd and Mr. Parham.

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

II. External Audit

– Elliott Davis FY13 Statutory Engagement

Chairman Burroughs called on Mr. Walton to introduce the 2013 fiscal year audit of the University. Mr. Walton stated that the final report from Mr. Tom McNeish will be included in the Comprehensive Annual Financial Report for the year ended June 30, 2013, that would be presented to the

Executive Committee at its December meeting. Mr. Walton introduced and praised the University's financial team:

Leslie Brunelli	Associate Vice President for Business and Finance and University Finance Director
Jennifer Muir	University Controller
Mary Peak	Director of General Ledger Accounting
Ann Smith	Director of Accounting Services
Sandy Smith	Director of Financial Reporting
India Gilliam	Financial Reporting Accountant
Kevin O'Brien	Financial Reporting Accountant

Mr. Walton called on Mr. McNeish, a shareholder with Elliott Davis, to present the financial statement audit for the year ended June 30, 2013. Mr. McNeish stated that the firm had completed its audit work and based on the audit procedures performed, Elliott Davis intended to issue an unqualified opinion on the University's financial statements. An unqualified opinion indicates that the University has fairly presented its financial statements in accordance with generally accepted accounting principles (GAAP). Fair presentation in accordance with GAAP is of great importance to the primary users of the University's financial statements such as bond underwriters and federal granting agencies. The University's financial statements are currently in draft form, have been submitted to the State Comptroller General and will be finalized upon approval by the Board of Trustees. Following the completion of these statements, the University financial staff will compile the Comprehensive Annual Financial Report (CAFR) and submit that document late this fall to the Government Finance Officers Association.

Mr. McNeish noted that due to new accounting standards, the Medical School Trust was previously listed as a blended component unit of the University, but is now included as a Governmental Discretely Presented Component Unit. The Trust has changed its accounting cycle from a calendar year to a June 30 fiscal year to match the University's accounting cycle.

Mr. McNeish stated that the BioMass Plant is reflected as a \$14 million loss in the income statements, which is a conservative approach, and that the settlement with Johnson Controls is expected to be reflected as a recovery item in the FY 2014 financial statement.

In conclusion, Mr. McNeish indicated that the audit went very well in terms of responsiveness and transparency. He responded to questions from committee members about the audit.

IV. Other Matters

Chairman Burroughs asked Mr. Walton how the Federal "Shut-down" was directly affecting the University. Mr. Walton explained that the Federal Government was not accepting submission of new grants and contracts. It was committed to existing ones, but accounts receivables were backed up.

Chairman Burroughs called for any other matters to come before the Committee. Mr. Mobley asked about the liability coverage for individuals authorized to execute University contracts. Mr. Parham responded that all University employees are covered through the State's Tort Liability Policy as a state employee. Mr. Parham noted that the University limited the number of employees authorized to sign contracts.

Chairman Burroughs asked that any Committee member or non-member who wished to help plan the Committee's next retreat to let him know or contact the Board Office.

V. Adjournment

Since there were no other matters to come before the Committee, Chairman Burroughs called for the meeting to adjourn at 1:45 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