

The official minutes of the University of South Carolina Board of Trustees are maintained by the Secretary of the Board. Certified copies of minutes may be requested by contacting the Board of Trustees' Office at trustees@sc.edu. Electronic or other copies of original minutes are not official Board of Trustees' documents.

University of South Carolina  
BOARD OF TRUSTEES

Audit and Compliance Committee

October 5, 2012

The Audit and Compliance Committee of the University of South Carolina met on Friday, October 5, 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. Robert E. Brown; Mr. Hubert F. Mobley; Mr. Thad H. Westbrook; Mr. Charles H. Williams; Mr. Eugene P. Warr, Jr., Board Chairman; and Mr. John C. von Lehe, Jr., Board Vice Chairman. 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. William W. Jones, Jr.; Mr. Miles Loadholt; Ms. Leah B. Moody; and Dr. Mitchell M. Zais.

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 Communications Luanne Lawrence; General Counsel Walter (Terry) H. Parham; Associate Vice President for Finance and Budget Director Leslie Brunelli; Associate Senior Vice Provost and Director of USC System Planning Christine W. Curtis; University Treasurer Susan D. Hanna; Chancellor of USC Upstate, Tom Moore; Director of the Department of Internal Audit Phil Iapalucci; Director of State Relations Trey Walker; Chief Financial Officer, Department of Athletics, Jeff Tallant; Vice Provost & Director (Interim) International Programs Timothy Doupnik; Vice Chancellor for Business and Finance, USC Aiken, Joe Sobieralski; Executive Director of University Boards and Public Affairs, USC Upstate, John F. Perry; Associate Vice Chancellor for Business Affairs, USC Upstate, Bob A. Connelly; Vice Chancellor for Administrative and Business Affairs, USC Upstate, Sheryl Turner-Watts; Director of Capital Budgets and Financing Charles FitzSimons; Senior Associate Dean for Natural Sciences Robert C. Thunell; University Controller Jennifer Muir; Director of International Programs for Internationals Alexandra Rowe; Special Assistant to the President J. Cantey Heath, Jr.; Director of Financial Reporting Mary Peak; Director of News and Internal Communications, Division of

Communications Wesley T. Hickman; Business & Marketing Coordinator, English Programs for Internationals, Maria Sophocleous; Director, International Student Services, Jody A. Pritt; Risk Manager, Division of Environmental Health and Safety and Risk Management, Brian Hann; Jennifer Coker 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 Kenny Tracy; Tom McNeish, Brian D'Amico, Laura Self, and Brittany Long with the outside audit firm Elliott Davis, LLC; University Technology Services Production Manager Justin Johnson; Board staff members Debra Allen, Leah Kososki, and Terri Saxon.

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 Colin Campbell, *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 receipt of legal advice and a contractual matter. He anticipated that the Executive Session would last approximately an hour. Mr. Williams moved to enter Executive Session and Mr. Mobley seconded the motion. The Board, President Pastides, Secretary Stone, and Mr. Parham were asked to remain. Mr. Walton and Mr. Iapalucci were later asked to join Executive Session.

## Return to Open Session

### I. External Audits:

A. Annual Financial Audit for FY2012: Mr. McNeish, Shareholder with Elliott Davis, presented the financial statement audit for the year ended June 30, 2012. The auditors had completed their audit work and based on the audit procedures performed, Elliott Davis intends 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 (or "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 (or "CAFR") and submit that document late this Fall to the Government Finance Officers Association.

Mr. McNeish stated that they were in the process of finalizing their Management Letter, which would include any best practice recommendations or control deficiencies that need to be reported to the Board; and an update of prior year management letter reportings. He noted that the good news was they did not have any findings that they would consider material weaknesses or significant deficiencies.

The University Administration took the initiative to facilitate its financial reporting capabilities by building a team in the Controller's Office with governmental accounting expertise.

Mr. McNeish responded to specific questions from the Committee members about the audit.

B. Elliott Davis Energy Report: At the request of University Administration, Elliott Davis was asked to review the University's Energy Contract with Johnson Controls, Inc. (JCI) to examine the accuracy of two primary assertions:

1. The services to be provided by the Energy contract (including the construction of the Biomass Facility) were procured in compliance with the State Procurement Code and the University's procurement policy.
2. The savings that have been guaranteed and reported to the University by JCI have been computed accurately.

Elliott Davis has completed their audit work and intends to issue an opinion indicating that both of the above assertions are fairly stated in all material respects. The report draft provided by Elliott Davis includes best practice recommendations related to certain conditions identified in the course of examining

the above assertions. Mr. McNeish noted that an example of improvement to the procurement process would have been to centralize the documentation; since they found some information in the Facilities Department and some in the Purchasing Department.

Mr. von Lehe recommended that the audit findings be better communicated and clarified in the final report. The Energy Contract Performance Audit is currently in draft form and will be finalized upon approval by the Board of Trustees.

II. Internal Audits:

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

A. International Student Services

B. English Programs for Internationals (EPI)

Mr. Iapalucci reviewed the International Programs – International Student Services audit report. The report highlights the regulatory challenges that exist in maintaining compliance with federal and state immigration/visa requirements for the University’s international students. The audit noted only minor exceptions. However, Mr. Iapalucci cautioned that maintaining compliance with federal and state immigration/visa requirements would be an ongoing challenge particularly as international student enrollment increases and additional regulatory burden is added. The Office of the Provost recognizes the challenging regulatory environment and has requested that the area be audited on a regular basis.

Mr. Iapalucci also shared the results of the English Programs for Internationals (EPI) audit which noted no significant findings. EPI is a separate department from International Programs.

C. Tracking Report: Mr. Iapalucci distributed the Internal Audit Tracking Report to the Committee members and noted acceptable progress has been made regarding the two open items. He stated that University administration was actively working to address audit issues. The Payroll Audit recommendation was given a revised implementation date to reflect a staffing issue. The new implementation date is March 2013.

The Graduate School was making significant progress on its one outstanding audit finding and was also given a revised implementation date of March 2013.

Chairman Burroughs asked Mr. Iapalucci to update the Committee on his Department. He stated that he was working to train an additional staff member to conduct “construction audits” and was in the process of hiring an “IT” technical auditor.

Chairman Burroughs thanked Mr. McNeish and Mr. Iapalucci for their informative reports.

III. Review Board and President Expenditures

Chairman Burroughs called on Mr. Iapalucci who stated that the Committee had received the 4<sup>th</sup> Quarter Report in their meeting packet. These reports were accepted as information.

IV. Other Matters:

Chairman Burroughs noted that the Audit and Compliance Committee Retreat, originally scheduled for October 26th, had been rescheduled for February 4th.

V. Adjournment:

Since there were no other matters to come before the Committee, Chairman Burroughs called for the meeting to adjourn at 11:45 a.m.

Respectfully submitted,

A handwritten signature in blue ink that reads "Amy E. Stone". The signature is written in a cursive, flowing style.

Amy E. Stone  
Secretary