

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

November 16, 2011

The Audit and Compliance Committee of the University of South Carolina met on Wednesday, November 16, 2011, at 9:30 a.m. in the 1600 Hampton Street Board Room.

Members present were: Mr. J. Egerton Burroughs, Chairman; Mr. Chuck Allen; Mr. W. Lee. Bussell, Sr.; Mr. Hubert F. Mobley; Dr. C. Dorn Smith, III; Mr. Thad H. Westbrook; Mr. Charles H. Williams; and Mr. Eugene P. Warr, Jr., Board Vice Chairman. Members absent were: Mr. Mack I. Whittle, Jr. and Mr. Miles Loadholt, Board Chairman.

Other Board members present were: Mr. Thomas C. Cofield; Mr. William W. Jones, Jr.; Ms. Leah B. Moody; and Mr. John C. von Lehe, Jr.

Others present were: President Harris Pastides; Secretary Thomas L. Stepp; Chief Financial Officer Edward L. Walton; Vice President for Student Affairs and Vice Provost for Academic Support Dennis A. Pruitt; Vice President of Development and Alumni Relations Michelle D. Dodenhoff; Vice President for Human Resources Chris Byrd; Vice President for Information Technology and Chief Information Officer William F. Hogue; Vice President for Communications Luanne Lawrence; General Counsel Walter (Terry) H. Parham; Senior Vice Provost and Director of USC System Planning Christine W. Curtis; Vice Provost and Dean of Undergraduate Studies Helen Doerpinghaus; Vice Provost and Executive Dean for Extended University Chris C. Plyler; Associate Vice President for Finance and Budget Director Leslie Brunelli; Associate Vice President for Business and Finance and Medical Business Affairs Jeffrey L. Perkins; University Treasurer Susan D. Hanna; Interim Executive Director of the Carolina Alumni Association and Secretary-Elect Amy E. Stone; Director of the USC Educational Foundation and Chief Financial Officer of the USC Foundations Russ Meekins; Chancellor of USC Aiken Thomas L. Hallman; Executive Dean of the South Carolina College of Pharmacy Joseph T. DiPiro; Dean of the Moore School of Business Hildy Teegen; Executive Dean and Senior Associate Dean for Graduate Education, College of Arts and Sciences, Roger H. Sawyer; Director of the Department of Internal Audit Phil Iapalucci; Associate Vice President for Business Affairs, Finance and Planning Division, Helen T. Zeigler; Director of State Relations Trey Walker; Executive Associate Athletics Director for External Affairs Kevin O'Connell; Professor in the Department of Psychology, College of Arts and Sciences, and Chair of the Faculty Senate Sandra J. Kelly; Past Chair of the Faculty Senate Patrick D. Nolan; Special Assistant to the President J. Cantey Heath, Jr.; Professor in the Department of Earth and Ocean Sciences, School of the Earth, Ocean & Environment, James H. Knapp; Director of Plant and Endowment Funds, Controller's Office, Deborah Crews; Director of Media Relations, Office of Communications, Margaret Lamb;

Student Government Association President Joe Wright; Administrative Coordinator, Division of Business and Finance, Heather Winkleman; University Technology Services Production Manager Justin Johnson; Board staff members Terri Saxon, Vera Stone and Karen Tweedy; and members of the media.

Chairman Burroughs called the meeting to order, welcomed those in attendance and asked them to introduce themselves. Mrs. Lamb introduced members of the media who were in attendance.

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 to receive legal advice relating to a potential claim and for the discussion of an employment agreement. Mr. Mobley moved to enter Executive Session and Dr. Smith seconded the motion. The vote was taken and the motion carried.

Mr. Iapalucci was invited to remain.

Return to Open Session

I. Update on External Auditor Selection: Chairman Burroughs called on Mr. Walton who explained that during the past five years the University had utilized the services of Elliott Davis & Co as the external auditor. He noted that the contract will expire on June 30, 2012.

Currently, the University had asked the firm to perform additional work including an in-depth audit of the Biomass Plant. In addition and concurrently the University was preparing to issue a request for proposals to hire a new external auditor.

Mr. Walton advised that he had conducted conversations with the State Auditor and various staff members and had considered at length what this committee, as well as the University, was trying to accomplish including an in-depth process of updating policies and procedures and practices.

He asked the committee to consider the possibility of extending the current auditor's contract an additional two years in order to ensure the continuity of very detailed work already begun which involved auditing of the University's financial statements and assisting with the implementation of internal control practices. He further commented that changing external auditors could lead to issues regarding the quality of the firm, the quality of the work and the amount of time University staff would have to invest teaching them the system. Mr. Walton hoped that the current external auditor would be able to continue helping this committee and the University solidify and institutionalize the financial processes.

Mr. Iapalucci indicated that he agreed with Mr. Walton particularly because the University will embark on a major system conversion in the near future.

Mr. Walton advised that Elliott Davis & Co had been employed as the University's external auditor for a period of five years expiring June 30, 2012. An additional two years would extend the timeframe until June 30, 2014.

In addition, Mr. Mobley understood that transitioning into the new OneCarolina system would be completed by the end of FY 2014. The ability to retain the current external auditor during that critical time he characterized as "good judgment."

Mr. Walton further commented that the firm was regionally respected. Unlike others used in the past, Elliott Davis & Co included findings and comments with audit reports.

Questioned about the payment procedure, Mr. Walton explained that the firm billed by the hour within a range of the mid \$150,000 to \$200,000 over the course of one year, noting that as they became more familiar with the University's financial processes they became more proficient.

Mr. Warr inquired about a best practice guideline for the length of time an external auditor should be employed. Mr. Walton advised that at five years different audit managers and partners within the firm should be working with the University. "You can take advantage of the information that the firm knows and the files that the firm has

already built up on you, but you want to make sure that the CFO is not too close with the partner and that the partners change after five years.”

Mr. Williams moved approval of extending the Elliott Davis & Co external auditor contract an additional two years terminating June 30, 2014. Mr. Mobley seconded the motion. The vote was taken and the motion carried.

II. Receipt of Financial Reports from University Foundations: Mr. Walton introduced Dr. Jerry Odom, Executive Director of University Foundations, who briefed the committee about the status of the various foundations.

Connected to the University were five 501C3 foundations with their own boards; externally audited on a yearly basis; and included in the financial statements of the University.

The Business Partnership Foundation served the Darla Moore School of Business solely, the Development Foundation was a real estate foundation, and the Educational Foundation was by far the largest foundation. Under that foundation, Dr. Odom advised, were also funds for Aiken, Beaufort, Sumter and Lancaster.

He explained that these four foundations were contributors to the University Foundations' pooled portfolio, unlike the Research Foundation, because funds earmarked for that foundation were disbursed to researchers and research groups.

An investment committee in each of those four foundations met on a regular basis and made recommendations. In addition, all four foundation investment committees gathered together twice a year to hear progress reports and to consider the portfolio.

The real decisions, Dr. Odom commented, were made by a small group of individuals who invested for a living; all were graduates of the University. That group was chaired by Allen Wright who was associated with UBS Wealth Management in Atlanta. Others in the group were individuals from Dallas, San Francisco, Philadelphia and locally. Also members were the chairs of all of the investment committees of the different foundations which contributed to the portfolio.

The individual foundations selected the chair of their particular investment committee; the other three on the committee were individuals who were considered investment experts. The Investment Oversight Committee invited them to serve if they were not chairs of the individual foundations' investment committees.

Dr. Odom noted that the Fund Evaluation Group from Cincinnati handled all research. The Joint Boards Investment Committee met twice a year; the Investment Oversight Committee met four times a year, twice via telephone and twice face-to-face.

As of June 30th assets totaled nearly \$300 million. Although the Educational Foundation was the largest contributor to the portfolio, all were involved and joint decisions were rendered about investing.

The Development Foundation owned property as well as invested in the portfolio.

Each foundation had an investment manager and their performance was closely monitored. Dr. Odom characterized foundational investment as "long term."

Since 1990, returns had averaged 7.64 percent; for FY 2011 the return was nearly 24 percent. An annual payout of 4½ percent had been consistently maintained.

Dr. Odom stated that the Educational Foundation had two kinds of expenditures: donor-designated expenditures; and board-designated expenditures from fees and returns which provided some measure of latitude.

University Foundations chief financial officer, Russ Meekins, was tasked with the responsibility of "keeping the money straight." Dr. Odom explained that he and Mr. Meekins met with the President and the Chief Financial Officer to determine priorities. "Our mission is to help the University in whatever way we can."

Dr. Odom reviewed the 2011 Board Designated Expenditures which were divided equally among Advancement Support (major Capital Campaign kickoff on November 11th); Salary Supplements; Student Support; and Foundation Operations.

Dr. Odom also reviewed the 2011 Donor Designated expenditures. He noted that 47 percent was given to Academic Programs; 42 percent to Student Support; and 11 percent to Salary Supplements.

A few examples of property which the Development Foundation owned included 20+ acres of land purchased from the Guignard Family; 12 acres were sold to the University for the construction of a baseball stadium; and another 5 acres of high ground had generated interest from several parties. A small parcel of land on the other side of the baseball stadium was sold to the Columbia Housing Authority to provide a buffer between the neighborhood and the baseball stadium.

Another example of property the Foundation owned was located behind the Greek Village; it contained two large warehouses. One warehouse was being used by Thomas Cooper Library to digitize the Movietone News Collection. Dr. Odom stated that the University will purchase the other piece of property at some point in the future.

A large tract of land on Wheeler Hill, an upscale neighborhood to the east of the University, was also owned by Foundations. When the University decided not to expand east of Pickens Street, it was decided to sell the Wheeler Hill property. The property will be sold in lots as single family homes.

The University airplane was leased from the Foundations.

A Cockaboose was gifted to Foundations from a donor. Various colleges and units entertained guests there during football games. The same donor also gifted parking spaces in Stadium Place which were made available for use by Development and the Provost Office.

Foundations also owned 49 percent of Adesso, an upscale 110 unit condominium complex at the corners of Main and Blossom Streets.

Dr. Odom clarified that the Foundations either bought property for the University or was given property. "We don't invest in property."

Another piece of property diagonally across from the Colonial Life Arena spanned a city block. Currently the University was using the area for playing fields. Dr. Odom believed the University would most likely purchase it in the future.

University Foundations also owned 80 percent of the Inn at USC; the other 20 percent was owned by IMIC Corporation. He noted that the facility was "a great place for University visitors to stay."

The Children's Center at USC and the land on which it sat was owned by the Development Foundation. Approximately 75 percent of the 195 children who attended the program had parents associated with the University.

And, finally, Dr. Odom addressed the University Endowment. Every year an organization called NACUBO, a business officers' organization of universities, and the Common Fund, an investment company that worked with universities, distributed a very long questionnaire (approximately 100 pages). In consultation with the Office of Business and Finance, and particularly Ms. Leslie Brunelli and her staff, a final number was determined. He announced that the amount for this year, which had not been reported, totaled nearly \$500 million.

First of all, he explained, the pooled portfolio was part of that figure. The state actually has a fair amount of money that is endowed. All of the money that the state contributed from the lottery was endowed and was also a part of the University's endowment.

Every piece of property minus any debt and further discounted was included. Currently, that amount was nearly \$56 million.

The money that Darla Moore and her husband gave to the University in the late 90s, \$25 million, currently totaled over \$35 million. It was in an irrevocable trust and will come to the Educational Foundation at some point.

Dr. Odom explained that Bob McNair contributed \$20 million to establish the McNair Scholarship Fund which he replenished as necessary. He and his wife manage the fund and it will come to the University upon both of their deaths.

Also included in the endowment were various separate funds primarily for the Law School and Business School which were building funds and a special fund that the family of Donald Russell gave sometime ago.

That, he summarized, was considered the endowment of the University.

Dr. Odom noted for the record that the \$45 million that Darla Moore had pledged to the Business School was not considered in the total amount. "We do not count pledges in the endowment. It has to be hard dollars. It is slated to come to the Business Partnership Foundation."

III. Receipt of Financial Reports from Medical Trust and Practice Plan: Mr.

Walton introduced Jeff Perkins, Associate Vice President for Business and Finance and Medical Business Affairs, who commented that the University School of Medicine had a separate educational trust which was included in the unit financials of the USC financial statements.

An audit was issued August 12th and an unqualified opinion was given. Also received was a "no comments or notes" report from the audit itself. Therefore, overall, the Educational Trust had net assets of approximately \$24.8 million, a figure which had been maintained for the last several years.

The USC School of Medicine Educational Trust also had a separate retirement plan which was also audited. That retirement plan had assets of approximately \$18 million and funded by the faculty who participated in the Trust from the outside with non University funds.

The retirement plan did receive a limited scope audit that was issued September 27th and "no noticeable notes or issues" related to that audit was received.

Overall, financially, the USC School of Medicine as well as the School of Medicine Educational Trust worked hand-in-hand.

The Educational Trust, Mr. Perkins explained, was a 501C3. The Trust itself had been operational for years. It was hoped to adjust the current fiscal year end of December 31st to coincide with the University's date of June 30th to avoid confusion regarding the financial numbers in the future.

He explained that ultimately the Trust was controlled by the Board of Trustees, the President and the Provost. A president, as well as officers of the Trust, were elected separately. Mr. Perkins was the secretary-treasurer. All officers served at the pleasure of the dean who served at the pleasure of the President and the Provost. He stressed that any matter considered significant business would always be brought before the University Board of Trustees.

Mr. Perkins planned to improve the reporting system by developing a financial dashboard.

IV. Review Internal Audit Tracking Report: Mr. Iapalucci distributed the Internal Audit Tracking Report to committee members and explained that considerable progress had been made regarding the open items.

He further explained that the distribution of the Prudential funds had been nearly completed. He asked for additional comments from Mr. Walton or Mr. Byrd.

Mr. Walton advised that all payments had been made to the principals. A small amount of money had been reserved for any unclaimed amounts.

Approximately \$200,000 of funds remained. Further research was needed for additional potential recipients.

V. Receive Current Internal Audit Report: Mr. Iapalucci indicated that the audit report for Aiken was before them at their places. He was satisfied with the

management responses offered regarding the four comments that were raised. He noted that Chancellor Hallman was very cooperative.

In the future, Mr. Iapalucci planned to adopt an audit reporting format that will provide the trustees more information. He believed that every audit report should present information within a context and background information. Therefore, upcoming audits will include an IT footprint, background of the department and relevant financial information to provide context to the audit.

VI. Implementation of Whistle Blower Policy: Mr. Iapalucci distributed an outline of the University's approach toward implementing a Whistle Blower Policy.

He noted that a website had been created to handle the process internally. Initially, the individual was instructed to call 911 or dial 803-777-9111 from a cell phone if the matter was an emergency.

The first step for addressing a concern or issue was to talk with the immediate supervisor or a higher level of authority.

If those options were not possible, the USC Integrity Line, a confidential website to discuss concerns about questionable or unethical behavior, was available www.sc.edu/uscintegrityline/. Users were asked to complete a report that requested information about a potential issue. They were given the option of either submitting the report electronically which would be directed to the General Counsel's Office or printing the report and mailing it to that office.

Once the information had been submitted, an e-mail will be sent to Mr. Iapalucci, the Chief Financial Officer, the Vice President for Human Resources and the General Counsel notifying them of a submission. They will meet periodically to review these matters and to determine the appropriate course of action.

In addition, he noted, a report will be given to the Committee about the USC Integrity Hotline which will include broad categories regarding the nature of the complaints and the manner in which they had been addressed.

Mr. Williams moved approval of the Whistle Blower Policy as presented. Mr. Bussell seconded the motion. The vote was taken and the motion carried.

VII. Other Matters:

- Board of Trustees Office and President's Office Expense Reports:

Mr. Walton advised that they had been discussing for several months expense reports from the Board of Trustees and President's Offices. He introduced Mrs. Susan Hanna, Treasurer of the University, to present the reports.

She explained that two types of funds were available for use by these offices: (1) "A" funds which were part of the current unrestricted fund category. They were derived from state appropriations and tuition and fees and were the general operating funds for the unit. Their use was governed by the state procurement code. And, (2) Designated Funds or "R" funds which were also part of the unrestricted fund category. They were

derived from auxiliary enterprises and, in these particular cases, vending and concessions. The funds were controlled by the Board of Trustees and approved annually in June when the University budget was adopted.

The majority of "R" funds expenditures were for University advancement and development functions.

The "A" funds expenditures were basically for operating purposes. The majority were personnel-related fringe benefits that made up approximately 85 percent of the total operating budget for the two offices.

Mrs. Hanna clarified that the "R" fund expenditures were more varied. For those reports the vendor and the purpose had been identified.

Mr. Iapalucci commented that his job was made much easier working with Mrs. Hanna who was a certified public accountant.

Chairman Burroughs thanked the committee members and everyone who remained throughout this meeting. He thanked the presenters and all team members who had worked very hard in putting together the presentation and materials.

There being no further business to come before the Committee, Chairman Burroughs declared the meeting adjourned at 12:10 p.m.

Respectfully submitted,

Thomas L. Stepp
Secretary