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University of South Carolina  
BOARD OF TRUSTEES

Audit and Compliance Committee

October 16, 2015

The Audit and Compliance Committee of the University of South Carolina met at 10:00 a.m. on Friday, October 16, 2015, in the 1600 Hampton Street Board Room.

Members present were: Dr. C. Dorn Smith III, Chairman; Ms. Paula Harper Bethea; Mr. J. Egerton Burroughs; Mr. Hubert F. Mobley; Mr. Thad H. Westbrook; Mr. Mack I. Whittle Jr.; Mr. Charles H. Williams; and Mr. Eugene P. Warr Jr., Board Chairman.

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

Chairman of the Faculty Senate August E. "Augie" Grant and Student Government President Jonathan Kaufman were present.

Others present were: President Harris Pastides; Secretary Amy E. Stone; General Counsel Walter "Terry" H. Parham; Chief Operating Officer Edward L. Walton; Chief Financial Officer Leslie Brunelli; Provost Joan T.A. Gabel; Vice President for Student Affairs Dennis A. Pruitt; Vice President for Information Technology William F. Hogue; Vice President for Human Resources Chris Byrd; Vice President for Facilities and Transportation Derrick Huggins; Executive Director of Audit & Advisory Services Pam Doran; Chief Communications Officer Wes Hickman; Athletics Director Ray Tanner; Vice President for System Planning Mary Anne Fitzpatrick; Palmetto College Chancellor Susan Elkins; USC Aiken Chancellor Sandra Jordan; USC Beaufort Chancellor Al Panu; USC Upstate Chancellor Thomas Moore; USC Lancaster Dean Walt Collins; Senior Vice Provost and Dean of Undergraduate Studies Helen Doerpinghaus; Senior Vice Provost and Dean of Graduate Studies Lacy Ford; Executive Director for the Office of Economic Engagement William D. "Bill" Kirkland; University Controller Jennifer Muir; University Treasurer Pat Lardner; University Budget Director Harry S. Bell Jr.; Chief Financial Officer, Athletics Department, Jeff Tallant; Associate Director of Strategic Planning and Assessment Cameron Howell; Director of Capital Budgets and Financing, Division of Administration and Finance, Charlie Fitzsimons; Director of Business Process Improvement, Division of Administration and Finance, Janis

Hoffman; Audit & Advisory Services Assistant Director Glenn Murray; Director of Financial Reporting, Controller's Office, Sandy Smith; Senior Audit Consultant, Audit & Advisory Services, Mark LaBruyere; Financial Analyst, Controller's Office, Lindsay Tedrick; Chief of Staff, President's Office, J. Cantey Heath Jr.; USC Aiken Vice Chancellor for Finance and Administration Joe Sobieralski; USC Upstate Vice Chancellor for Administrative and Business Affairs Sheryl Tuner-Watts; Trustee Emeritus Herbert Adams; Tom McNeish and Brian D'Amico with the audit firm of Elliott Davis Decosimo, LLC; Jeff Minch and Steve Kantor with First Southwest Company; University Technology Services Production Manager Matt Warthen; and Board staff members Debra Allen and Terri Saxon.

I. Call to Order

Chairman Smith 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 Shain with *The State*, Hannah Jeffrey with the *Free Times*, and Chris Cox with the *Columbia Regional Business Report*.

Chairman Smith stated that the agenda had been posted and the press had been notified as required by the Freedom of Information Act; the agenda and supporting materials had been circulated to the committee members; and a quorum was present to conduct business.

Chairman Smith called for a motion to enter Executive Session to receive legal advice, and for a personnel matter related to the performance evaluation of the Executive Director of Audit & Advisory Services (AAS). Ms. Bethea so moved and Mr. Westbrook seconded the motion. The vote was taken and the motion carried.

Chairman Smith invited the following persons to remain: Trustees, President Pastides, Secretary Stone, Mr. Parham, Ms. Doran, Mr. Walton, Mr. Byrd, Ms. Brunelli, Ms. Gabel, Mr. Tanner, and Mr. Murray.

EXECUTIVE SESSION

## RETURN TO OPEN SESSION

Chairman Smith welcomed Trustee Emeritus Herbert Adams.

### II. External Audits

Chairman Smith called on Mr. McNeish with Elliott Davis Decosimo (EDD) to present the external audits.

#### A. Fiscal Year 2015 Financial Statement Audit

Mr. McNeish began by expressing his appreciation to the Controller's Office staff for their work in providing in a timely manner the information requested during the audit process.

Mr. McNeish presented the financial statement audit for the year ended June 30, 2015. The auditors had completed their work and based on the audit procedures performed, EDD intended to issue an unmodified opinion on the University's financial statements. An unmodified 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's 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 the University implemented the Governmental Accounting Standards Board (GASB) Statement #68, *Accounting and Financial Reporting for Pensions* (an amendment of GASB Statement #27) in the fiscal year ending on June 30, 2015. As a result of this implementation, the University now reports its portion of the State of South Carolina's net pension liability. At June 30, 2015, the University reported net pension liabilities of \$703,562,633 for the South Carolina Retirement System and \$10,102,838 for the Police Officers Retirement System. Mr. McNeish and Ms. Brunelli responded to questions about this new reporting requirement.

#### B. 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. No internal control weaknesses or significant deficiencies were identified and the auditor's report on compliance for the major programs is unmodified.

Mr. McNeish reported that the Federal Office of Management and Budget (OMB) had published a “New Uniform Guidance – for federal awards.” This new guidance will be applied to the next audit. He explained that the modifications are a key component of a larger federal effort to more effectively focus federal resources on improving performance and outcomes while ensuring the financial integrity of taxpayer dollars in partnership with non-federal stakeholders. This reform of OMB guidance will reduce administrative burden for non-federal entities receiving federal awards while reducing the risk of waste, fraud and abuse.

C. System Audit Management Letter

Mr. McNeish presented the University’s management letter, which includes items that are not audit findings but are possible deficiencies or weaknesses. If a significant or material weakness is identified, government auditing standards require notification to the University by EDD. There were no items added to the management letter following the 2015 audit.

D. South Carolina Education Lottery Scholarships – Agreed-Upon Procedures

Mr. McNeish said that with respect to the state-supported LIFE Scholarship and the South Carolina HOPE Scholarship, an agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the University and the South Carolina Commission on Higher Education (CHE). He reported there were no exceptions as a result of this procedure.

Chairman Smith thanked Mr. McNeish for his informative report.

III. Internal Audits/Reviews

Chairman Smith called on Ms. Doran.

A. Capital Debt Management

Ms. Doran said that the Capital Debt Management Report was primarily limited to the financial and operational activities and transactions related to capital debt management for Fiscal Year 2015. The audit addressed the following: development and review of capital planning and capital financing based on University needs and available capital; performance of the bond issuance process, including preparation of the official statement for use by investors; and monitoring of debt covenants and other pertinent financial ratios for use in reviewing debt levels and planning future financing.

Ms. Doran reported that with the exception of findings related to the University’s Capital Planning Policy, BTRU 1.30, the risk-based audit determined that Capital Finance was properly handling the capital

debt management process in accordance with federal and state regulations and University and departmental policies and procedures.

Ms. Doran said that although management internally tracks and monitors the University system's financial health ratios and supplementary ratios as required by BTRU 1.30, debt updates to the Board of Trustees had not included foundation debt and the financial health ratios required by the policy. She also noted that some key fiscal planning items were not currently addressed by the policy. Therefore, Audit & Advisory Services (AAS) recommended management annually present to the Board information on the ratios using historical trend analysis and industry benchmarks. AAS also suggested amending BTRU 1.30 to address this recommendation. A specific amendment was not presented at this time.

Efforts were underway to address the concerns in the finding.

Ms. Doran noted that concurrent with the AAS audit, First Southwest Company had been engaged to perform a debt capacity study to analyze the University's ability to obtain additional financing and the estimated cost of obtaining the aforementioned financing.

B. Fine Arts Review Progress Report

Ms. Doran said the Board had requested AAS examine the control structure of the University's fine arts collectibles. To that end, AAS established the following objectives for the review: compile a list of fine arts collectibles valued at more than \$5,000 that are not housed or monitored by one of the units traditionally having expertise in this area across the University system such as the libraries, museums and the law school; determine how fine arts are received by the University and recorded; and review the procedures in place to record, track, monitor, and insure these items.

Ms. Doran reported that the first objective had been completed. An inventory had been created to provide the basis for the full audit. The inventory identified \$4.1 million of collectables housed throughout the University system, of which \$2 million was on loan from University Libraries and McKissick Museum. Ms. Doran said that AAS will verify that these collectibles on loan are tracked and monitored using loan agreements with various University departments.

C. Law School Construction Audit Progress Report I

Ms. Doran said the audit focused on whether the procurement process for the construction manager at risk was in compliance with State regulations and University policies; payment applications and management fees were consistent with terms and conditions of the construction contracts; appropriate insurance coverage existed; and change orders were reasonable and properly approved on the \$80 million School of Law construction project for the period January 1, 2011, through June 30, 2015.

Ms. Doran reported that the audit staff found no significant reportable issues during the course of the audit process. She noted that Facilities had reported the project currently was both on budget and on time.

D. Review of Third and Fourth Quarter Fiscal Year 2015 President's Office and Board Office Expenditures

Ms. Doran said that AAS's review of the January 1 – June 30, 2015, expenditure summaries found no reportable issues.

E. Tracking Report

Ms. Doran reported that the outstanding reconciliation in the Unlimited Travel Authorizations Audit had been addressed. Out of the 15 findings noted in the Student Health Services – HIPPA Security Assessment, Capital Project Management, Capital Debt Management, and CMAT Internal Control Review, 11 were on track for completion, but not yet due, and four had been implemented.

IV. Audit and Compliance Committee

A. Matrix Review

Ms. Doran informed the committee that an updated matrix had been provided on the Board Portal.

B. Audit and Compliance Committee Self-Assessment

Ms. Doran reported that AAS received four responses to the self-assessment. Overall, the assessments showed members were satisfied with the committee's performance. Ms. Doran said that based on comments received, she planned to meet individually with members to discuss ideas for committee improvements in the areas of new member orientation and Committee ongoing education.

Chairman Smith stated that these reports were received as information.

V. Other Matters

Chairman Smith called for any other matters to come before the committee.

VI. Adjournment

Since there were no other matters to come before the committee, Chairman Smith called for the meeting to adjourn at 11:42 a.m.

Respectfully submitted,

Amy E. Stone  
Secretary