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University of South Carolina
BOARD OF TRUSTEES

Audit and Compliance Committee

March 28, 2014

The Audit and Compliance Committee of the University of South Carolina met at 11:15 a.m. on Friday, March 28, 2014, in the 1600 Hampton Street Board Room.

Members present were: Mr. J. Egerton Burroughs, Chairman; Mr. Chuck Allen; Mr. Hubert F. Mobley; Dr. C. Dorn Smith III; 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. Mr. Mack I. Whittle, Jr. joined the meeting by telephone. Mr. Robert E. Brown was absent.

Other Board members present were: Mr. Thomas C. Cofield; Mr. A. C. "Bubba" Fennell III; Mr. Toney J. Lister; and Dr. Mitchell M. Zais. Ms. Leah B. Moody joined the meeting by telephone.

Also present were faculty representative Dr. James H. Knapp and student representative Lindsay Richardson.

Others present were: President Harris Pastides; Secretary Amy E. Stone; Provost Michael D. Amiridis; Chief Operating Officer Edward L. Walton; General Counsel Walter "Terry" H. Parham; Vice President for Student Affairs Dennis A. Pruitt; Chief Financial Officer Leslie Brunelli; Vice President for Facilities and Transportation Derrick Huggins; Athletics Director Ray Tanner; University Treasurer Susan D. Hanna; University Controller Jennifer Muir; Associate Vice President for Business and Finance and Medical Business Affairs Jeffrey L. Perkins; Palmetto College Chancellor Susan Elkins; Executive Director of Internal Audit Pam Doran; Vice Provost and Director for International Affairs Allen Miller; College of Arts and Sciences Dean Mary Anne Fitzpatrick; College of Nursing Dean Jeannette Andrews; Executive Director for the Office of Economic Engagement William D. "Bill" Kirkland; Chief Communications Officer Wes Hickman; Director of Governmental and Community Relations and Legislative Liaison Shirley D. Mills; Chief of Staff, President's Office, J. Cantey Heath, Jr.; Risk Manager, Division of Environmental Health and Safety and Risk Management, Brian Hann; Executive Vice Chancellor for Academic Affairs, USC Aiken, Jeff Priest; Department of Mathematical Sciences Professor, USC Aiken, Bethany Fralick; Student Government Public Health Senator Sarah Sunday; Student Government Business Senator Gavin S. Smith; Moe Brown, South Carolina Department of Commerce; University Technology

Services Production Manager Matt Warthen; Board staff members Debra Allen, Terri Saxon and Ina Wilson.

Chairman Burroughs called the meeting to order, welcomed those in attendance and asked them to introduce themselves. Mr. Hickman introduced Hannah Jeffrey 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.

II. Internal Audits/Reviews

Chairman Burroughs called on Mr. Fennell, who announced that Ms. Doran had been appointed a Board Member-at-Large to the Association of College & University Auditors (ACUA). He explained that this was a very prestigious national recognition for both for Ms. Doran and the University.

Ms. Doran began her presentation by noting that from this point forward, in an effort to reduce costs, printed copies of audits would no longer be provided. All audits would be issued in an electronic format.

Ms. Doran said she was happy to announce that she had only good news to report about the audited programs on the agenda. Each program was found to be properly managed within the scope of the review, and no reportable issues were discovered during the course of the audits.

A. College of Nursing – Healthcare Process Redesign Center

The Healthcare Process Redesign Center (HPRC) is a research center within the College of Nursing. In addition to the Director, who holds the SmartState Endowed Chair in Health Informatics Quality and Safety Evaluation, the HPRC is supported by an interdisciplinary team of research experts from the following colleges: Nursing, Arnold School of Public Health (Biostatistics); Engineering and Computing (Civil Engineering and Computer Science); Darla Moore School of Business; and the School of Medicine. Research is funded by state appropriations; tuition and fees; research funds from the Provost Office; and funds associated with the SmartState Chair appointment. The total expenditure was \$25,000 for the 12-month period that ended June 30, 2012.

Ms. Doran noted that due to the research emphasis of the HPRC, research studies involving human subjects may require review by the University's Office of Research Institutional Review Board. Concurrent with this audit, the Office of Risk Management performed a separate review of insurance, contracts, and student welfare issues within the College of Nursing. During its review, the Office of Risk Management

brought certain issues to the attention of management, and those issues were resolved prior to the conclusion of this audit.

B. College of Nursing – Center for Nursing Leadership

The Center for Nursing Leadership (CNL) is a resource utilized to achieve the College of Nursing's strategic goals. The center is a career-long nursing leadership and workforce development resource center with four major functions: continuing education, including the college's annual lectureships; leadership skills training for nurses; nursing workforce policy and research; and co-leader for the state-wide Future of Nursing action campaign.

The center is funded by state appropriations; tuition and fees; one philanthropic grant from the Duke Endowment; cost sharing provided by the Dean's Office; and several University Educational Foundation accounts.

The audit focused on the continuing education offering process; compliance with the sub-award agreement with the Office of Healthcare Workforce; and data management and storage. The total expenditure was \$82,000 for the 12-month period that ended June 30, 2012.

C. TRIO McNair Program

Ms. Doran said that TRIO programs were designed by the U. S. Department of Education over 45 years ago to identify and provide educational opportunities and college access to individuals from disadvantaged backgrounds. The University of South Carolina administers five TRIO programs. Of the five USC programs, The McNair Program funds are used to prepare disadvantaged participants for doctoral studies through involvement in research and other scholarly activities. The program services at least 25 participants per year at an annual cost of approximately \$230,000.

Ms. Doran explained that based on the risk assessment, the audit was focused on compliance with participant eligibility; program services; record retention; financial management; grant reporting; and data management.

Ms. Doran thanked all who worked with and supported her staff during the audit processes.

Mr. Williams asked the number of audit reviews currently underway and those planned to begin within a year; the process used to determine what areas are audited; and why with greater potential risks, two audits were conducted within the College of Nursing. Ms. Doran named three audits underway. She explained that the number of audit reviews to be scheduled within the next year was dependent upon a University Risk Assessment, which was scheduled to begin next month, and on available staff resources. Dr. Amiridis clarified that the Provost Office's standard policy was to request an audit when there was a

change in oversight, which he said had occurred with the appointment of the new dean of the College of Nursing in January 2013. Ms. Doran noted that this policy was a good standard practice in Higher Education.

Mr. Fennell noted the importance of the planned risk assessment that he said would identify the priority for audit reviews.

D. Tracking Report

Ms. Doran noted that of the nine outstanding audit issues, six had been resolved. Progress was being made on the remaining three: USC Lancaster – Native American Pottery Special Collection; International Programs – Study Abroad Office; and Payroll. Ms. Doran will provide an update on the three outstanding audit issues at the June committee meeting.

E. Review of Calendar Year 2013 President's Office and Board Office Expenditures

Ms. Doran reported that there were no reportable issues and that expenses were being properly managed within the scope of the review.

Chairman Burroughs commended Ms. Doran for her thorough review.

F. Updated Committee Matrix

Ms. Doran noted that items listed in the Matrix's March column were completed. There remained two Matrix items for the fiscal year that had not been covered: the Enterprise Risk Management Program, which was delayed until next fiscal year; and the Environment Compliance Program, which is scheduled to be presented at the committee's June meeting.

Chairman Burroughs thanked Ms. Doran and stated that these reports were received as information.

III. Update of Board of Trustees Policies

A. BTRU 1.06 Internal Audit

Ms. Doran stated that the updates in the policy were to reflect the department's name change to Audit & Advisory Services; its reporting structure; the Board committee's name change to Audit and Compliance Committee; as well as to establish that all audit engagements would be conducted in compliance with the Institute of Internal Auditors – Standards for the Professional Practice of Internal Auditing.

Chairman Burroughs called for a motion to recommend full board approval to update the policy BTRU 1.06 Internal Audit officially changing the department name to Audit & Advisory Services and making other changes as presented by Ms. Doran and described in the materials posted on the Board

Portal. Dr. Smith so moved and Mr. Mobley seconded the motion. The vote was taken and the motion carried.

B. BTRU 1.18 Conflict of Interest

Ms. Doran explained that the changes in the policy were to reflect the changes made the previous year to the Board of Trustees Bylaws, which require annual certification of Board members. Additionally, the University's Conflict of Interest form will be updated to make it consistent with approved changes to the policy.

Chairman Burroughs called for a motion to recommend full board approval to update the policy BTRU 1.18 Conflict of Interest to make it consistent with the Bylaws of the Board of Trustees, as presented by Ms. Doran and described in the materials posted on the Board Portal. Mr. Mobley so moved and Dr. Smith seconded the motion. The vote was taken and the motion carried.

Ms. Doran reported that based on the policy, her office had received four disclosures in the past 12 months and that none of those disclosures presented a conflict that needed to be managed.

C. BTRU 1.22 Reporting of Violations of State and Federal Laws or Regulations

Ms. Doran stated that the changes reflected the successful implementation of the University's integrity line. In addition, the department and committee's names, and staff titles were updated.

Ms. Doran explained that an Ad Hoc Committee composed of the Vice President of Human Resources, the Chief Operating Officer, the General Counsel, and the Executive Director of Audit & Advisory Services, convened as necessary to review integrity line reportings.

Ms. Doran reported that since the creation, in Summer 2012, of the integrity line, 15 reports had been received. Fourteen of those reports dealt with human resource issues and all had been closed. One report lacked sufficient information for a review.

Chairman Burroughs called for a motion to recommend full board approval to update the policy BTRU 1.22 Reporting of Violations of State and Federal Laws or Regulations as presented by Ms. Doran and described in the materials posted on the Board Portal. Mr. Williams so moved and Dr. Smith seconded the motion. The vote was taken and the motion carried.

D. BTRU 1.24 Internal Control Policy

Ms. Doran stated that there were only minor changes to the policy, including the department's name change.

Chairman Burroughs called for a motion to recommend full board approval to update the BTRU 1.24 Internal Control Policy as presented by Ms. Doran and described in the materials posted on the Board Portal. Mr. Mobley so moved and Mr. Westbrook seconded the motion. The vote was taken and the motion carried.

IV. Other Matters

– Carolina on King Update

Chairman Burroughs called on Mr. Walton, who noted that a full report would be made available on the Board Portal.

Mr. Walton stated the initiative was a storefront visitors' center on King Street in Charleston. The objective was to enhance University brand recognition through localized efforts in student recruitment, MyCarolina Alumni Association outreach, Gamecock Club outreach, media and community involvement, marketing and promotions. These efforts are paid for by the University as part of the marketing and communications budget for the Columbia campus. The storefront is a means to attract customers to the USC brand. This effort is coordinated with the marketing and communications effort and operated through a contract with Barnes and Noble bookstores. The initiative is considered successful in marketing terms with nearly 62,000 annual visitors.

The property lease was approved by the Executive Committee of the Board of Trustees in April 2012, after much discussion about the concept, purpose, funding sources, and overall cost. The cost to USC is approximately \$420,000 per year for marketing, communications, amortized rent and up-fits, taxes, insurance, utilities, and the net of income from the storefront. The USC funding source for the marketing and communications portion of the initiative is general income budgeted to the Marketing and Communications Department from USC trademark and licensing revenue. The USC funding source for the lease and up-fit costs was paid in advance and amortized over the life of the lease. The lease will expire in June 2015.

Mr. Walton stated that the administration would evaluate the future of Carolina on King in 2014 Summer/Fall, following a full two years of operating results. Recommendations to the President for future leasing, contracts, and program operations are expected by December 2014. Any leases or significant contract amendments will be brought to the Board of Trustees in accordance with the Board's Bylaws and policies.

Mr. von Lehe asked if the University had an option to renew its lease on King Street. Mr. Walton responded no, and explained that the University took over an existing lease. Mr. Fennell asked how the budget actuals compared to the estimates over the past two years. Mr. Walton said they were very close.

Mr. Walton responded to questions from Dr. Smith regarding the University's return on its investment in Carolina on King. He explained that throughout 2013, Carolina on King had served to represent the University of South Carolina in the Charleston area and had garnered positive feedback. During the calendar year, the center welcomed nearly 62,000 guests and generated retail sales of more than \$284,000.

Dr. Pastides explained the importance of the University's presence in Charleston. Mr. von Lehe said that both Carolina on King and the President's involvement with alumni events in Charleston had caused a positive effect on the University and its enrollment.

Mr. Cofield agreed that it might be difficult to provide a tangible response to Dr. Smith's question regarding the University's return on its Carolina on King investment; however, it was a marketing and advertising dream for the University to have a store located in the world's number one tourist destination. Therefore, he suggested that a good practical analogy would be to compare the cost of operating Carolina on King, to the cost to produce and air television commercials. He concluded that Mr. Walton's description of Carolina on King as a "living marketing commercial" was accurate.

Mr. von Lehe said that he did not understand why Carolina on King did not make a profit, when other specialty stores in the area did. Mr. Walton clarified that if the University's goal was only to sell Gamecock merchandise, then Carolina on King would not yet show a profit because the lease cost was amortized over a short period of time. However, he said, the retail store was in addition to the successful back office marketing group.

Mr. Walton concluded by noting that December had been the strongest month of the year, both in terms of highest number of guests (7,277) and largest total monthly sales (\$44,644).

Following Mr. Walton's update, Chairman Burroughs briefly discussed potential future report topics that he felt fell within the committee's risk assessment responsibilities. Among those mentioned were Northwestern University's lawsuit regarding collegiate athletes' unionization; the Darla Moore School of Business construction project; and the proposed new dormitories.

V. Adjournment

Since there were no other matters to come before the Committee, Chairman Burroughs called for the meeting to adjourn at 11:53 a.m.

Respectfully submitted,



Amy E. Stone
Secretary