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University of South Carolina
BOARD OF TRUSTEES

Audit and Compliance Committee

June 17, 2011

The Audit and Compliance Committee of the University of South Carolina met on Friday, June 17, 2011 at 1:30 p.m. in the Hampton Street Board Room.

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

Other Board members present were: Mr. Herbert C. Adams; Mr. Mark W. Buyck, Jr.; Mr. Thomas C. Cofield; Dr. C. Edward Floyd; Mr. William W. Jones, Jr.; Mr. Toney J. Lister; Mr. Hubert F. Mobley; Ms. Leah B. Moody; and Mr. John C. von Lehe, Jr.

Others present were: President Harris Pastides; Secretary Thomas L. Stepp; Vice President for Academic Affairs and Provost Michael D. Amiridis; Chief Financial Officer Edward L. Walton; 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; Associate Vice President for Business and Finance and University Budget Director Leslie G. Brunelli; General Counsel Walter (Terry) H. Parham; Vice Provost and Executive Dean for Extended University Chris P. Plyler; University Treasurer Susan D. Hanna; Chancellor of USC Aiken Thomas L. Hallman; Chancellor of USC Beaufort, Jane Upshaw; Chancellor of USC Upstate John Stockwell; Dean of USC Sumter C. Leslie Carpenter; Vice President for Finance and Personnel, Division of Student Affairs, Stacey Bradley; Senior Vice Provost Christine W. Curtis; Director of the Department of Internal Audit Phil Ipalucci; Director of Capital Budgets and Financing, Division of Business and Finance, Charles D. FitzSimons; Campus Dean of the South Carolina College of Pharmacy Randall C. Rowen; Vice Chancellor for Business and Finance, USC Aiken, Ginger S. Hudock; Director of Financial Planning, Controller's Office, Mary Peak; University Bursar Janis B. Hoffman; Administrative Coordinator, Office of Business and Finance, Heather Winkleman; Chair of the Faculty Senate Patrick D. Nolan; Special Assistant to the President J. Cantey Heath, Jr.; Director of Governmental and Community Relations and Legislative Liaison Shirley D. Mills; Director of Media Relations, Office of Communications, Margaret Lamb; Student Government Association (SGA) President Joe Wright; Vice President for Academic Affairs and Dean of the Faculty at Winthrop University Dr. Thomas F. Moore; Consultants from Elliott Davis, LLC, Tom McNeish and Brian Damico; Alton McCoy, Department of Internal

Audit; Board staff members Barbara Salmons, Terri Saxon, and Vera Stone; and a member of the media.

Chairman Burroughs called the meeting to order and began by recognizing and welcoming Mr. Phil Ipalucci, the University's new Director of Internal Audit. He also welcomed those in attendance and asked them to introduce themselves. Ms. Lamb introduced a member of the media who was present.

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 had been e-mailed to the Committee members; and a quorum was present to conduct business.

I. Audit Tracking Report: Chairman Burroughs called on Mr. McCoy to present the Audit Tracking Report, and noted that this would be Mr. McCoy's last presentation. Chairman Burroughs also recognized President Pastides who announced that he would have to leave the meeting early to accompany the Governor and a on an economic development trip. He stated he would continue to participate in the meeting by telephone as he traveled to the Charlotte Airport.

Mr. McCoy reported on those items outstanding on the Audit Tracking Report.

Human Resources - There were still three recommendations which were more than six months old outstanding from the Human Resources audit. All were expected to be resolved by August 2011.

Payroll - The outstanding finding noted that liability accounts were not being reconciled, or were not being reconciled correctly. Also, they were not approved by management, and were not supported by adequate documentation. In response to the finding, Mr. Walton stated that a new employee with CPA credentials was hired to reconcile these accounts.

Following some discussion, Mr. Walton clarified that the finding was a result of too few people to address a multitude of tasks. The staff focused on getting the next payroll out, which left little to no time for full reconciliations. The new employee's time would be dedication totally to reconciliations.

Accounts Receivable - The outstanding finding noted that management should develop a University policy to address topics such as non-student receivables, invoices, and write-offs. Management agreed to write an institutional policy. However, they thought it would be unwise to write a policy for systems that were currently in the middle of a major changeover. The University is in the process of implementing a new cashiering system. Once those processes became clearer, management would define and write the requisite policies.

Mr. Warr asked about the University's policy on military tuition rates. He said that his concern was that military should be allowed to receive the lowest tuition available for each campus. Ms. Brunelli clarified that according to the University's budget document the active duty military tuition rate was tied to the regional campus

rate and was applied across the USC campuses. The rate had been in effect at the current level since at least the mid 1990's.

II. Internal Audits:

A. Legal Residency: There were no reportable findings in terms of significant deficiencies or material weaknesses. The audit review concluded that the Office of Legal Residency was operating efficiently and in compliance with established University policies and state laws governing residency requirements.

Mr. McCoy noted that Brenda Josey, who recently retired, had run the Office of Legal Residency for over 35 years. In all her time in this position, Mr. McCoy did not recall any findings being noted in the office's audits.

B. Aiken Campus, Offices of the Vice Chancellors of Academic Affairs, Enrollment Services, and University Advancement: There were four findings in this audit. The first finding dealt with "E" Fund Payroll. The Campus had already been in the process of addressing this finding during the course of the audit. Their objective was to reduce the amount of "A" funds of the Office of Conferences and Continuing Education to only campus-wide services that were non-fee generating.

Chancellor Hallman responded that they could demonstrate that they had made progress and would continue to make progress to further reduce the A fund budget for the Office of Conferences and Continuing Education.

The second finding dealt with deficiencies in cash receipting and deposits. In addition to the director taking a more proactive approach to periodic oversight of these processes and additional staff training, the implementation of OneCarolina will reduce the amount of cash/checks/money orders that would come through this office.

The third finding was revealed when a comparison of students' application documentation to the admissions information entered into the University's mainframe was conducted. An Admissions data entry error was found, and it was determined that an internal audit procedure had not been followed in this one instance.

Chancellor Hallman explained that in this instance this student had applied to more than one USC campus which resulted in more than one entry point where the mistake took place. However, his campus took responsibility for the mistake since his campus awarded the Life Scholarship to this student. Chancellor Hallman said that they took this finding very seriously and now saw that every admissions application was audited prior to its finalization.

The fourth finding was a result of a review on contracts and contract signatures to determine if they were adequately documented and were being handled in accordance with the University policy on signing contracts. Steps had been taken to correct the actions noted in this finding.

C. Cash Receipts: The Financial Services Depository, within the Bursar's Office, is authorized to process all payments made on the Columbia and School of Medicine

campuses, and is the official record keeper of deposit information. Individual departments or locations on campus collect various fines/fees and submit these receipts to the Depository, which processes the deposit and makes a record of the transaction in the applicable University account.

The Office of Financial Services had developed policies and procedures for Receipt and Handling of University Payments (BUSF 4.10). Each receipting location is required to adhere to these guidelines.

The purpose of the audit was to determine if the cash receipting areas were operating in accordance with University policies and procedures, to review internal procedures and controls, and to test financial accountability.

While some findings were specific to the Department, the majority of noted exceptions were a result of personnel not following cash receipting guidelines established by Financial Services. Of the nineteen departments tested, over twenty-six deficiencies were noted. The recommendation to provide training on cash receipting and handling, not only for new hires but for current staff in cash handling positions as well, had been implemented by the Department.

In addition, a majority of noted exceptions were a result of departments not following "E" Fund guidelines established by the Budget Office. In response to these deficiencies, the Budget Office would work with units noted to close accounts, monitor recommended activity and review both excess and deficient balances.

Included in the audit report was a category, Other Issues Noted. In this finding, thirteen issues with individual departments were cited, and the Department of Internal Audit planned to follow up with these departments to verify that these issues were resolved.

Mr. Walton noted that the adoption of BTRU 1.24 Internal Control Policy, which would be addressed later in the meeting, would address the issues that arose in these findings. These findings would also be addressed by the new hires, and the implementation of OneCarolina.

III. Parking Garages Audit: Mr. Tom McNeish presented a summary of the Horizon and Discovery Garages Report on Financial Statements for the years ended June 30, 2010 and 2009. No significant deficiencies or material weaknesses were noted. However, deficiencies were identified in the Internal Control area: parking garage operations, tickets, and payroll. Once brought to the attention of the appropriate staff, steps were implemented to address these areas of concern.

Mr. McNeish explained that the reason the University requested this audit was because of the financial obligation to fund the garages. Since the garages were in their first years of operations, they were only generating sufficient revenue to cover the garages operational charges and to debt service. However, it was anticipated that they

would generate sufficient revenue in the future to service the debt. The current annual shortfall was approximately \$1 million.

Mr. Whittle asked if there was a plan to address the revenue shortfall. Mr. Walton responded that there was a seven year plan in place.

IV. BTRU Policy #1.22 Reporting of Violations of State and Federal Laws or Regulations: This policy had been referred to as the "Whistleblower" policy during the Audit and Compliance Committee discussions. Mr. Walton explained that this policy would empower employees to anonymously disclose anything that could be a violation of State and Federal Laws or regulations.

Chairman Burroughs called for a motion to approve BTRU 1.22 as presented. Mr. Whittle so moved and Mr. Westbrook seconded the motion. The vote was taken and the motion carried.

V. BTRU Policy # 1.24 Internal Control Policy Draft: Mr. Walton explained that this policy communicates to the entire University community the internal objectives of the Board of Trustees, and their institutional responsibilities.

Chairman Burroughs called for a motion to approve BTRU 1.24 as presented. Mr. Williams so moved and Mr. Whittle seconded the motion. The vote was taken and the motion carried.

VI. FY 2012 Designated Funds Budget: Chairman Burroughs called on Ms. Brunelli who explained that Designated Funds were revenues collected from auxiliary accounts, of which the majority of funds were used annually for scholarships. The Board had approved an amendment to the FY 2010-2011 Budget in March of 2011 to provide for a contractual agreement for the Division of Business and Finance. Since those funds would not be fully expended in the current fiscal year, the carryforward was returned to the budget to honor the contractual obligations. There were no other changes recommended for the FY 2011-2012 Designated Fund Budget.

Mr. Whittle moved to recommend the budget to the Executive Committee for inclusion in the University's FY 2011-2012 Budget. Mr. Bussell seconded the motion. The vote was taken and the motion carried.

VII. Internal Audit Department Budget Approval: Chairman Burroughs called on Mr. McCoy, who stated that when Mr. Ipalucci was appointed the Director of Internal Audit they worked together on the FY 2011-2012 Budget. With increased IT actions and the implementation of OneCarolina, they both identified the need for and provided for an IT auditor in the budget. Also included in the budget was funding for an administrative assistant and student workers to be assigned junior auditor responsibilities.

Mr. Whittle moved to approve the FY 2011-2012 Internal Audit Budget, as recommended, for inclusion in the Executive Committee's budget presentation to the full Board. Mr. Allen seconded the motion. The vote was taken, and the motion carried.

Mr. Whittle asked about Department of Internal Audits' budget at other

universities. Mrs. Hanna responded that she had gathered some information during the recent search for the new Director of Internal Audit and would be happy to share it with the Committee.

VIII. Other Matters:

A. Board of Trustees and Presidents Offices' Quarterly Reports:

Chairman Burroughs called on Mr. Walton who stated that the Audit and Compliance Charter required "Review on a quarterly basis the business expenses of the Board of Trustees, the President, and the Secretary of the Board."

Mr. McCoy explained that there were numerous accounts under the category "Board of Trustees" and "President" in which the expenses could not be defined as "discretionary." Therefore, he recommended that the Director of Internal Audit work with the Committee and Mr. Walton to determine exactly which accounts should be included in the quarterly reports, and to what detail. He noted that Ms. Hanna currently prepared a report similar to this request on a quarterly basis.

B. Director of the Department of Internal Audit: Chairman Burroughs welcomed Mr. Phil Ipalluci who thanked those involved in the search process, which lead to his being able to work for a "world-class" university. Mr. Ipalluci stated that his primary focus would be on the development of a one year audit plan, which would lead to the development of a three-year strategic plan.

In addition, Mr. Ipalluci said that his office would work to address the "emerging risks" the University faced, with the toughest one being "network security."

There being no further business to come before the Committee, Chairman Burroughs declared the meeting adjourned.

Respectfully submitted,

Thomas L. Stepp
Secretary