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University of South Carolina
BOARD OF TRUSTEES

Audit and Compliance Committee

August 5, 2011

The Audit and Compliance Committee of the University of South Carolina met on Friday, August 5, 2011, at 2:00 p.m. in the 1600 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; Mr. William C. Hubbard; 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; 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; Associate Vice President for Finance and Budget Director Leslie Brunelli; Associate Vice President for Health and Safety and Risk Management Tom Syfert; Executive Vice Chancellor for Academic Affairs, USC Beaufort, Harvey Varnet; University Treasurer Susan D. Hanna; Interim Executive Director of the Carolina Alumni Association Amy E. Stone; Director of the Department of Internal Audit Phil Iapalucci; Director of Capital Budgets and Financing, Division of Business and Finance, Charles D. FitzSimons; Director of Law Enforcement and Safety Chris L. Wuchenich; Chair of the Faculty Senate Patrick D. Nolan; Special Assistant to the President J. Cantey Heath, Jr.; Executive Assistant to the President for Equal Opportunity Programs Bobby D. Gist; Director of Governmental and Community Relations and Legislative Liaison Shirley D. Mills; Emergency Management Coordinator, Division of Law Enforcement, Vinny Bocchino; Director of Media Relations, Office of Communications, Margaret Lamb; Student Government Association President Joe Wright; Administrative Coordinator, Division of Business and Finance, Heather Winkleman; wife of Board Chairman Miles Loadholt, Ann Loadholt; 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. Ms. Lamb introduced members of the media who were 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. University Emergency Management Team Organization and Report: Chairman Burroughs called on Mr. Walton who introduced Vinny Bochinno, Emergency Management Coordinator Manager, USC Law Enforcement and Safety Division. Mr. Bochinno coordinated the efforts of the emergency management team; maintained the Carolina Alert notification system; planned the procedures for the manner in which the University would respond to emergencies; and provided training to first responders. He was also the University's representative in the International Association of Emergency Managers for Universities and Colleges.

Mr. Bochinno gave a brief overview of his roles and responsibilities and background information on Emergency Management in higher education. After the tragedy at Virginia Tech, universities began to realize how susceptible they were to these types of disasters and the effect disasters had on campuses as well as the city, county and state in their recovery efforts.

The University had hired an Emergency Management Coordinator, purchased the first Emergency Notification System, expanded and reorganized the Emergency Operations and Notification Plans. The Emergency Notification included Carolina Alert, an expanded siren system, text messaging and mass email system, and social media such as Facebook and Twitter.

Another area of responsibility was training and meeting with the Emergency Management Team every two months. Future plans included realistic training such as drills and exercises, continual planning for academic and supporting University departments, and community outreach.

Chairman Burroughs stated that this report was received as information.

II. Report on Risk Management and Life/Safety Issues: Mr. Walton introduced Mr. Tom Syfert, Associate Vice President for Health and Safety and Risk Management. In this position, he was responsible for providing Risk Management, EPA, OSHA, Radiation Safety and Fire Safety support. He had 17 years of environmental compliance experience in waste water and OSHA issues. Mr. Syfert earned a Bachelor's degree in Materials Science and a Masters in Environmental Safety and Health Management from the University of Findlay.

Mr. Syfert reported that the mission of Environmental Health and Safety (EHS) was to provide health, safety and loss control services to the University community through technical support, information and training programs, consulting services, and periodic auditing of health and safety practices and regulatory compliance.

Specific EHS programs included Biological Safety, OSHA compliance, Fire Safety, Hazardous Waste, Industrial Hygiene, Laboratory Safety, EPA compliance, Radiation Safety, and Risk Management.

In an effort to effectively manage university-wide environmental health and safety risks, EHS had developed and implemented an overall Environmental and Occupational Safety Management System (EMS) that ensured continuous improvement.

ISO 14001 helped organizations minimize their environmental impact; comply with applicable laws, regulations and other environmentally oriented requirements; OHSAS 18001 helped organizations control occupational health and safety risks. USC was the first university to be certified in both.

Regarding Occupational Safety and Health Administration (OSHA) compliance, EHS had performed audits at all campuses and select Columbia campus departments such as Housing, Facility Services, and Police. In addition, they identified areas of OSHA non-compliance and required the management of each campus to document written corrective action plans. Plans were tracked until all open items were closed. EHS assisted in the development of comprehensive OSHA Compliance systems at the departmental level.

He reported that USC had paid an average of \$4.5 million dollars annually over the past three years in workers compensation premiums. The premium was affected by the severity of injuries, the frequency of injuries and the number of employees at the University. This year's projected premium was \$2.7 million. He contributed the savings to employer training on safety.

Fire Safety Team. Mr. Syfert reported that the Fire Safety group consisted of a Fire Marshal and four other technicians. Three were State Certified Fire Marshals. One marshal was a National Institute for Certification in Engineering Technologies (NICET) certified Fire Alarm Technician, and one was a retired Fire Chief from McIntyre Air Force Base.

Mr. Syfert reported numerous compliance activities which included annual life safety inspections at all Columbia buildings (198) and at senior and regional campuses (114).

Hazardous Waste. Mr. Syfert reported that the department processed and shipped hazardous waste for disposal within 90 days from pick-up; inspected laboratory waste areas, notified laboratories of non-compliance and tracked open items to completion; submitted quarterly and annual federal and state mandated hazardous waste reports; and conducted hazardous waste management training.

Industrial Hygiene Program. Emergency management worked closely with departments to write, implement and maintain asbestos, lead, hearing conservation, respiratory protection and other compliance programs; conducted annual audits of all departmental asbestos management policies and work operations; provided consultative and technical

assistance to those involved in activities related to asbestos; and assessed potentially hazardous environments throughout the University, i.e. air monitoring, ventilation studies.

Biological Safety. The department facilitated the development and implementation of administrative policies and laboratory work practices; assisted in facility design and safety equipment selection; conducted training programs of work involving biological agents; conducted annual laboratory inspections (99) to identify deficiencies and make recommendations to improve safety and compliance.

Laboratory Safety. Emergency Management developed safety programs to minimize the health effects from the use of hazardous chemicals; conducted training in the proper use and storage of chemicals; audited compliance with applicable building codes; conducted safety and compliance inspections of laboratories and tracked corrective action plans.

Radiation Safety. The Radiation Safety Division consisted of the Radiation Safety Officer (RSO) and three full-time employees. The division had ordered all radioactive materials for University researchers; processed and shipped radioactive waste; conducted radioactive materials, laser, and X-ray training courses; inspected laboratories using X-ray machines and lasers annually; inspected laboratories using radioactive materials semi-annually; and issued personnel dosimeters to monitor for ionizing radiation.

Risk Management. Risk management protected the University's physical, human and financial assets through the purchase of insurance; assisted departments in procuring appropriate insurance policies from outside brokers; prevented adverse claim experience through training, education and inspection; handled all University claims, except worker's compensation; advised University managers on insurance and non-insurance techniques used to mitigate risks in their specific operations; and in conjunction with General Counsel, reviewed contracts for proper insurance requirements.

He stated that as mandated by state law, the majority of USC insurance policies were purchased through the State Budget and Control Board, Office of the Insurance Reserve Fund (IRF).

The Emergency Management Division had received nearly \$200,000 in grants over the past two years.

In closing, he stated that future projects would include \$4 million in fire system upgrades, new cylinder storage at Swearingen, increased focus on research safety, and Disaster Resistant University grant implementation.

Chairman Burroughs stated that this report was received as information.

III. Reporting Plan for Presidential/Board of Trustees Expenses: Mr. Walton called on Phil Iapalucci, Director of Internal Audit, who reported that he was working closely with the University CFO and Treasurer to develop a process to review Board of Trustees and Presidential expenses. In addition, the external auditor would likely participate in the review process.

Chairman Burroughs stated that this report was received as information.

IV. Litigation Report: Chairman Burroughs called on Mr. Parham who gave an overview of pending litigation. It included general tort and employment, medical malpractice, and four breaches of contract actions. He stated that the Board would be kept updated as cases went forth. He would also include administrative matters, such as complaints filed with the Human Affairs Commission and EEOC.

Dr. Floyd asked whether some the cases could be settled to save legal fees.

Mr. Parham provided the Board with a breakdown of outside legal fees paid last fiscal year (July 1, 2010 through June 30, 2011) which totaled \$515,817.43. He stated that 60 percent of legal fees were paid for intellectual property law (patents) prosecutions. Others included taxes, bond construction and real estate cases.

Most law suits were covered through the state and in-house. Therefore, the University incurred limited legal fees.

Mr. Burroughs requested that Mr. Parham provide the committee with a report of this nature on an annual basis. He recommended that members contact Mr. Parham if they had suggestions for improvements.

V. Report on University Debt: Mr. Walton called on Leslie Brunelli, Associate Vice President for Finance and Budget Director. She reported that the total outstanding bond indebtedness as of June 30, 2011 was \$459,610,000.

A breakdown of the \$459.6 million dollar indebtedness by campus was as follows:

Columbia:

State Institution Bonds	\$ 93,900,000
Athletic Facilities Revenue Bonds	112,700,000
School of Medicine Educations Trust Revenue Bonds and Notes	6,375,000
School of Medicine State Institution Bonds	5,275,000
Revenue Bonds - Housing	136,290,000
Revenue Bonds - Parking	16,885,000
	<u>\$ 371,425,000</u>

Aiken Campus:

State Institution Bonds	\$ 11,095,000
Revenue Bonds	29,290,000
	<u>\$ 40,385,000</u>

Upstate Campus

State Institution Bonds	\$ 15,200,000
Revenue Bonds - Housing	24,822,586
Revenue Bonds - Bookstore	4,812,414
	<u>\$ 44,835,000</u>

Beaufort Campus

State Institution Bonds	\$ 2,740,000
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Sumter Campus

State Institution Bonds	\$ 225,000
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Ms. Brunelli gave an overview of the FY 2011 bond issuance and indebtedness by campus. She stated that there had been some significant debt issuance over the past 10 years, primarily due to Athletics and Housing.

The amount of indebtedness over the past several years were: \$174,150,000 in 2002, \$263,760,000 in 2007, and \$459,610,000 in 2011. She said even though debt had increased, the University had funding available to support the changes.

Ms. Brunelli reported that the State Institution Bonds were rated Aaa by Moody's Rating Services, AAA by Fitch Ratings and AA+ by Standard & Poor's Credit Market Services. The Revenue Bonds were rated Aa2 by Moody's and AA by Fitch; and the Athletic Facility Revenue Bonds were rated Aa3 by Moody's.

In closing, Mrs. Brunelli highlighted some of the activities planned for FY 2012. There would be an on-campus visit with Barclays Capital to review Moody's ratings and to revise our ratios; preliminary work on Capital Budget and complete annual continuing disclosure; the issuing of an RFP for underwriter services (Barclays Capital contract would expire on 10/18/12); and the review of debt for refunding opportunities. The Capital Budget would be completed by spring 2012.

Chairman Burroughs stated that this report was received for information.

VI. Plans and Processes for Hiring New External Audit Firm: Mr. Walton reported that the current audit firm had consumed the three years of their original contract plus two one-year extensions. The current extension would expire June 20, 2012. It would take six months to hire a firm and the process would go through state procurement. This committee would be included in the process.

Mr. Burroughs stated that communication with the committee on the process could be as simple as a telephone conference as needed. Everyone on the committee should have the same information and be informed and work through this process together.

Mr. Walton said he would finish the draft plan and forward it to the committee soon.

Mr. Whittle suggested that it might be a good idea to find out which firms represented those universities with higher bond ratings than USC.

Chairman Burroughs stated that this report was received for information.

VII. FY 2011-2012 Audit Plan: Mr. Walton introduced Mr. Phil Iapalucci, Director of Internal Audit, who presented the committee with a proposed 2011-2012 Internal Audit Plan. He said this was his 7th week on campus and he was still learning the University, but this plan would give him an opportunity to be exposed to key areas of the institution. In the course of the next 12 months, he would work to execute this audit plan and begin working on a strategic audit plan with input from the Chairman, President Pastides, Provost, Mr. Walton and others. Audit categories that would be emphasized this year were: Athletics, Construction, Academic Entities, Regional Campuses, and Student Affairs matters.

He would work with the Chairman in creating a risk survey to get advice and counsel from members of the Board.

Chairman Burroughs stated that this report was received as information.

VIII. Set Committee Fall Retreat: Mr. Walton commented that the Retreat last year was very productive and was a great opportunity for members to interact. Furthermore, many of the presentations today resulted from that Retreat. Plans were underway for a retreat this fall. He stated that Secretary Stepp would work with members on their schedules and come up with a suitable date.

Chairman Burroughs thanked 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.

Respectfully submitted,

Thomas L. Stepp
Secretary