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University of South Carolina
BOARD OF TRUSTEES

Audit and Compliance Committee

June 13, 2014

The Audit and Compliance Committee of the University of South Carolina met at 11:15 a.m. on Friday, June 13, 2014, in the 1600 Hampton Street Board Room.

Members present were: Mr. Hubert F. Mobley, Presiding Chairman; Mr. Chuck Allen; Mr. Robert E. Brown; Dr. C. Dorn Smith III; Mr. Thad H. Westbrook; Mr. Mack I. Whittle, Jr.; Mr. Charles H. Williams; Mr. Eugene P. Warr, Jr., Board Chairman; and Mr. John C. von Lehe, Jr., Board Vice Chairman. Mr. J. Egerton Burroughs was absent.

Other Board members present were: Mr. Mark W. Buyck, Jr.; Mr. Thomas C. Cofield; Mr. A. C. "Bubba" Fennell III; Mr. William W. Jones, Jr.; Mr. Toney J. Lister; Mr. Miles Loadholt; and Ms. Leah B. Moody. Mr. William C. Hubbard 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; Chief Financial Officer Leslie Brunelli; Vice President for Student Affairs Dennis A. Pruitt; Athletics Director Ray Tanner; University Treasurer Susan D. Hanna; University Controller Jennifer Muir; Palmetto College Chancellor Susan Elkins; Executive Director of Internal Audit Pam Doran; Chief Communications Officer Wes Hickman; College of Arts and Sciences Dean Mary Anne Fitzpatrick; Chief Financial Officer, Department of Athletics, Jeff Tallant; Associate Dean for Academic Affairs, College of Education, Zach Kelehear; Associate Director of Strategic Planning and Assessment Cameron Howell; Director of State Relations Trey Walker; 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; Director of Contract and Grant Accounting, Controller's Office, Tony Huggins; Executive Vice Chancellor for Academic Affairs, USC Aiken, Jeff Priest; Tom McNeish with the audit firm of Elliott Davis, LLC; USC student Melissa Hanna;

University Technology Services Production Manager Matt Warthen; Board staff members Debra Allen and Terri Saxon.

I. Call to Order

Mr. Mobley called the meeting to order, welcomed those in attendance and asked them to introduce themselves. Mr. Hickman stated that there were no members of the media in attendance.

Mr. Mobley 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. Designated Funds FY 2014-15 Budget

Mr. Mobley called on Ms. Brunelli, who reported the FY 2014-15 Designated Funds Budget was \$3,931,900. The budget is allocated from auxiliary enterprise revenues with \$3,401,500 budgeted for University scholarships and \$530,400 budgeted for “R” funds, which are Board of Trustees’ controlled funds from auxiliary enterprise operations. The FY 2014-15 budget reflects a \$3,000 decrease from the FY 2013-14 budget. The decrease is from elimination of the line item “School of the Environment.” Those funds had not been utilized since 2010.

Mr. Fennell asked that in the future a projected year-end current fiscal year line item be added so that committee members could see how the year was expected to close, prior to approving the next year’s budget.

Mr. Whittle moved to recommend the budget to the Executive Committee for inclusion in the University’s FY 2014-15 Budget. Mr. Williams seconded the motion. The vote was taken and the motion carried.

III. Audit and Advisory Services FY 2014-15 Budget

Mr. Mobley called on Ms. Doran who stated that the proposed budget resources were consistent with prior year funding. She explained that although the total budget remained the same, she had moved money within the budget to fund two internal auditor positions in mid-year; and to ensure her commitment to staff professional development.

Ms. Doran noted that the “IT Audit Services” line item showed \$60,000 that will fund a Health Insurance Portability and Accountability Act (HIPAA) audit. She noted that an article was posted on the Board Portal related to HIPAA requirements.

Mr. Fennell asked why the employee salary line item decreased, while the employee fringe benefits line item increased. Ms. Doran explained that fringe benefits were dependent upon the type of benefits

each employee selects. Ms. Brunelli clarified that this line item may have been incorrectly calculated in prior budgets.

Mr. Mobley called for a motion to approve the FY 2014-15 Audit and Advisory Services Budget, as recommended, for inclusion in the Executive Committee's budget presentation to the full Board. Dr. Smith so moved. Mr. Brown seconded the motion. The vote was taken, and the motion carried.

IV. Internal Audits/Reviews

Mr. Mobley called on Ms. Doran

A. Darla Moore School of Business Construction Audit Progress Report IV

Ms. Doran stated that this was the fourth progress report on the \$106.5 million capital project. A copy of the full report was provided to the committee via the Board Portal. The audit focused on payment applications that were incurred, approved, and paid for the period November 1, 2013, through February 28, 2014. She said that her staff reviewed required insurance coverages and found all certificates were in place.

Ms. Doran reported that the audit staff found no material weaknesses during the course of the audit process. Mr. Fennell asked if the project was on budget and Ms. Doran responded yes.

Mr. von Lehe asked for more information regarding the \$1,667,531 Rafael Vinoly Architect's change order, which he noted seemed very high. Mr. Walton responded that the change order was related to the expansion of the project budget during the development phase and since the architect's fee is based on the cost of the project, Vinoly's fee increased.

When asked, Mr. Walton reported that the project was both on time and on budget and that move-in to the new Darla Moore School of Business (DMSB) was scheduled for June-July 2014, in time for the start of Fall classes and the grand opening event in September.

Secretary Stone noted that a tour of the new DMSB, planned to follow the Board's June 20, meetings had been rescheduled to follow the August 8 Board meetings. This change was due to the full meeting schedule and the Palmetto College Chancellor's Investiture on June 20. Secretary Stone said that should any Board members feel the need for an individual tour prior to August, she would arrange it.

B. Trio Opportunity Scholars Program

Ms. Doran said that the 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 (USC) administers five TRIO programs. Of the five USC programs, the Trio Opportunity Scholars Program funds are used to

provide opportunities for academic development, assist students with basic college requirements, and to motivate students toward successful completion of their postsecondary education.

The program funded an average of 350 participants per year over the last three years, at an annual average cost of approximately \$338,015. The number of program participants during the three years actually averaged 407.

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. She noted that the audit revealed that the program was being properly managed within the scope of their review.

C. Tracking Report

Ms. Doran noted that the outstanding reconciliations noted in the Payroll Audit had been resolved and that internal audit staff will conduct a limited testing of the process in six months to assure compliance.

The outstanding audit issues revealed in the International Programs – Study Abroad Office review, were in the process of being resolved through the study abroad application fee the Board approved at its meeting on December 17, 2013, and which will go into effect July 1, 2014. This fee will generate enough revenue to allow for the hiring of three full-time staff to provide advising, recruitment, and administrative support necessary to maintain the increased number of bi-lateral exchange programs.

Ms. Doran reported that in relation to the USC Lancaster – Native American Pottery Special Collection outstanding audit issues, there had been difficulties with new software implementation. The software, designed to facilitate maintenance of collections records, is expected to be fully operational by late June 2014. Ms. Doran said that she would provide an update at the August committee meeting.

V. Committee Matrix Review

Ms. Doran noted that items listed in the Matrix's June column were completed; and that she planned to work with the administrators and the Audit and Compliance Committee Chairman to develop the FY 2014-15 Matrix.

Mr. Mobley thanked Ms. Doran and stated that these reports were received as information.

VI. Educational Topics

Mr. Mobley called on Mr. McNeish to discuss the following educational topics, which were also posted on the Board portal.

A. Office of Management and Budget (OMB) Uniform Guidance

Mr. McNeish began by discussing the upcoming changes to federal grant requirements. In December 2013, the OMB codified eight circulars into a “Super Circular” within the *Code of Federal Regulations*, which made significant changes to federal grants management. The changes were in response to the administrative burden of the existing procurement standards. The subjects covered are titled under the headings of Administrative Requirements, Cost Principles, and Audit Requirements. These changes become effective for entities with fiscal years beginning on or after December 26, 2014.

Mr. McNeish explained in detail the streamlining effects of the *Super Circular*, the new requirements for recipients and for auditors, and the major program determination guidelines.

B. Impact of Sequestration

In March 2013, an across-the-board federal budget cut of \$85.3 billion was ordered. The actual enacted appropriations reduced this amount to \$80.5 billion. According to the OMB, the sequestration equated to a 7.8 percent cut to defense and a 5 percent cut to non-defense, which affects the University in its research and development efforts, and in its student financial aid. As a result of this action, the sequester agencies will still be held accountable for balancing their budgets, but will have no discretion as to what programs will be cut.

Mr. McNeish reported on a survey that was conducted by the Association of American Universities. Of the 171 members polled, 70 percent reported effects of sequestration as significant reductions in the number of federal research grants and extensive delays in campus-based research. He concluded by noting the audit risks created by the sequestration, including an increased competition for grants and an increased federal oversight.

There being no questions, Mr. Mobley thanked Mr. McNeish for his informative report.

Mr. Mobley called for a motion to enter Executive Session for the receipt of legal advice. Mr. Westbrook so moved and Mr. Brown seconded the motion. The vote was taken and the motion carried.

Mr. Mobley invited the Trustees, President Pastides, Secretary Stone, Mr. Parham, Mr. Walton, Ms. Brunelli, Ms. Doran, Dr. Amiridis and Mr. Hickman to remain.

Executive Session

Return to Open Session

VII. Other Matters

Mr. Mobley called for any other matters to come before the committee.

VIII. Adjournment

Since there were no other matters to come before the committee, Mr. Mobley called for the meeting to adjourn at 12:12 p.m.

Respectfully submitted,

Amy E. Stone
Secretary