CALL TO ORDER / OPEN SESSION:

Interim Chairman Robert Waldrep called the meeting to order at 9:07 A.M. The public notice was read. The agenda (Attachment 1) and the minutes (Attachment 2) and supporting materials (Attachments 3-4) were previously circulated to the members. The Trustee Corbitt extended the invocation. The roll was called.

Trustees present: Mrs. Pearl Ascue, Dr. John Corbitt, Mr. Robert Nance, Mr. Katon Dawson, Mrs. Linda Edwards Duncan, Dr. Gail Joyner-Fleming, Mr. Ronald Henegan, Ms. Patricia Lott, Dr. Dennis Nielsen, Mrs. Cathy Novinger, Mr. Anthony Grant, Dr. William Small and Mr. Robert Waldrep

Ex-officio members: Ms. Vernell Brown, Mr. Akeem Brown, Dr. Jesse Kinard, Dr. Larry Watson and Mrs. Kay Snider

Ex-officio members absent: Dr. Benetta Bell and Mr. Edward Williams.

Administrators present: President Mr. Thomas Elzey, Vice President for Academic Affairs Dr. W. Franklin Evans, Assistant Vice President for Finance, Facilities and Management Mr. Eric Eaton, Vice President of Administration Dr. Rita Teal, Athletics Director Mrs. Charlene Johnson, Interim Assistant Vice President of Student Affairs Dr. Tamara Hughes, Vice President for Research, Economic Development and 1890 Programs Mr. Delbert Foster, Associate Vice President for Institutional Advancement and Public Relations Ms. Sonya Bennett, Assistance Director of Public Relations Ms. Antia Dawkins and Administrative Coordinator to the Board and Recorder Mrs. Eartha Mosley

Media: The Times and Democrat Reporter Mrs. Dale Linder-Altman.

The Chairman acknowledged and extended welcome wishes to the following new Board Members: Mrs. Pearl Ascue, Mr. Katon Dawson, Mr. Ronald Henegan, Mrs. Cathy Novinger, Dr. William Small and Dr. Thomas Cassidy.

ADOPTION OF AGENDA

Chairman Waldrep asked for adoption of the agenda. Trustee Corbitt so moved and seconded by Trustee Duncan.

NEW TRUSTEE TRAINING

Mrs. Donna Traywick-Foster, of Budget and Control Board serves as staff for the Agency Head Salary Commission. Mrs. Foster distributed training packets containing information on the Agency Head Salary Commission (AHSC) as it relates to the members, history, the roles of the commission, role of the staff, AHSC related provisos and laws, the comprehensive job analysis – Hay Study and the four (4) stages of the Performance Evaluation Process. The information discussed is contained therein. See attachment 3

Chair Waldrep thanked Mrs. Foster.
ETHICS TRAINING

Mrs. Cathy Hazelwood, General Counsel & Deputy Director for the State Ethics Commissions, presented a power point presentation in regards to The Ethics, Government Accountability, and Campaign Reform Act of 1991. The information discussed is contained therein. See Attachment 4

SACS CORE AND COMPREHENSIVE STANDARDS

President Elzey stated that the SACS letter dated July 10, 2013 is in response to the report the University sent to SACS in March. The letter is the official notice that the University has been placed on a 12 months warning. Governance and Finance Management are the two areas SACS had concerns about. The University will provide in writing how it plans to address the governance and finance management concerns by April 2014.

The finance concerns will be addressed through the fiscal year 2013 audit that will not be available until late September or early October. The audit will be reviewed and the response will be prepared surrounding the audit.

Regarding governance, President Elzey stated SACS wants the Board to demonstrate that they are adhering to the policy and principles established by the Board. Because of past history there appears to be some skeptics by SACS as to whether the Board will adhere. The President made three recommendations: 1) a meeting with Dr. Belle Wheelan and her staff to discuss the concerns; 2) to contact an AGB Consultant for a special training and/or special reviews to discuss methods and approaches to addressing the issues, which will development a pathway forward and 3) between now and March to demonstrate that the Board is actually doing what it said it would do.

2014 BUDGET UPDATE

President Elzey reported that what we are providing to the Board is an outline of where we are in regards to the formulation of the budget for fiscal year 13-14. In this outline/discussion, we are providing an update. What we anticipate will occur is, we will submit to the Finance Committee or however it is constructed during the normal committee process, the actual budget and proposed budget along with other materials that we will discuss today which outline an approach and strategy for addressing our overall financial picture for the University. A final proposed budget will be developed and submitted to the Budget and Finance Committee for review prior to submission to the full Board for approval. President Elzey instructed AVP Eric Eaton to begin his presentation.

Mr. Eaton stated that at our June 25th meeting we provided a presentation that framed the budget development process for the University. We have developed and looked at several scenarios in terms of our outlook on enrollment and what that enrollment outlook was in terms of our revenue position, our revenue on state appropriations and anticipated cost going forward into the new year. In each of those scenarios it presented a picture indicating certain deficits. We follow those by some analysis to the extent of what actions could be taken in order to minimize or eliminate the deficit. Mr. Eaton provided Board members with a recap and summary of the various budget scenarios presented at the June 25th meeting. Each scenario examined projected enrollment, enrollment revenues, anticipated state appropriations, projected operating costs, and the resulting deficits. There were also discussions on actions that could be taken to reduce the projected deficit. These actions would have to be significant in nature.

A proposal was put on the table to increase tuition and fees. There was some discussion on the proposal. The final decision was to raise tuition by 2.5% both in-state and out-state tuition; athletics fees $100 per semester increase the fee for health care services by $50.00 a semester. All of those items became effected July 1, 2013. All of those items has been communicated to students, faculty, and constituents all involved in our standard fee schedule that is available to the public. Actions taken to reduce the projected deficit included cost and expense reductions across the various
operating divisions as well as a board approved increase in tuition and fees of 2.5%, establishment of a $100/semester athletics fee and a $50/semester increase in the Health fee.

The question was asked if the 2013 fiscal year projection will end the year at a deficit of $1.6 million. Eric Eaton stated that is correct and it includes auxiliary operations. There was ongoing dialogue with the State Treasurer’s Office on the University’s debt portfolio. The structure of the current State Institution bonds does not provide a mechanism for interest rate reductions.

PRESENTATION BY EXTERNAL AUDITORS (BDO)

Mr. Stathis Poulos, BDO partner, the external auditor. Ms. Lashaun King, Audit Manager with BDO and a 2003 graduate of South Carolina State University. Ms. King is new with BDO and we are extremely excited to have her. She has tremendous amount of experience in public accounting and in higher education. She also serves as the Audit manager of one of our most recent contracts, Howard University.

Mr. Poulos pointed out that three documents will be reviewed. The first one would be 1) the summary of 2012 audit findings 2) the 2013 audit plan and 3) the assessment survey.

The first sheet is the summary of the 2013 audit findings. We have discussed this in the past and I really bought this so you would have everything together. It summarizes the 2012 audit adjustments, the financial management comments, the NCAA comments, and the A-133 comments. These are all topics that we have discussed before. I know some of the new board members are not aware of; this information would be beneficial for you to have everything in one document rather than having several different documents that were scattered throughout the year.

Trustee Grant questioned the finds for the unallowable doubtful account in 2012 and some of the other controls deficiency. He don’t know if the Board did this as of yet, but one of the recommendations was to modify or to implement a policy as it relates to doubtful accounts. Mr. Poulos stated that is correct.

Trustee Grant stated the Board would review the allowances for doubtful accounts, due to the fact of it being double the amount we have done in years. I also recall the fact of asking why we were allowed to do this and how were we in sync with what our policy states? I still do not think we have identified a policy that we need to have in place so we have some type of consistence. Also, with respect whether allowances for the year end, is it a board matter or is it just for information that is coming to the board, as well as any general ledger adjustments? This would relate to one year when we wrote down a $1 million worth of notes and no one at the board knew about it. We need to establish at least some type of threshold that is presented to the board. The Board should be notified so it will not be such a surprise at the end of the fiscal year.

Mr. Poulos shared that in the finding from last year; BDO noted the University had a calculation method in place. In auditing, the calculations made sense based on historical data. In our opinion, the results were adequate based on the gross dollars involved.

The finds came into play due to the lack of formal documentation of what the policy truly stated. It’s a good idea to have policies in place because it will help assist with questions like: “What is the policy? How do we know we are following within the policies?” That was our recommendation last year for management to go back and formalize the calculation method use or assumption used in calculating the allowances into a policy where it’s no questions and it provides consistence. Trustee Grant asked is it a policy that is guided by the State?

Mr. Eaton responded it is not guided by the state. It is guided by the nature of the accounts that you have on reserve. The draft of the policy was presented in the April 4, Finance Committee meeting, but no action was taken.
In summary, the nature of that policy will follow the specific areas of accounts receivable that we are required to evaluate and take reserve on; general students' receivables, a variety of loans, and accounts that we keep on the books. Based on the policy that has been created, it has been put in place that the evaluations of these accounts are being done on a consist bases.

Trustee Grant asked the question about the general ledger? It wasn’t part of the 2012 audit finding but if you look back a year or two, it was some general ledger adjustments. The adjustments were significant as it relates to student loan receivables. I ask some individuals about the general ledger adjustments and they didn’t know anything about it. That is another topic we need to make certain of, some type of policy that address the general ledger adjustments. It may have been directed by the prior CPA firm, but the Board should at least be made aware of them.

President Elzey stated that the process alone when it is a meeting of the executive audit committee those items should be pointed out to the committee at that time by the auditing firm. Mr. Stathis said yes, that is correct. President Elzey asked, are you saying the committee was not notified. Trustee Grant stated he wasn’t on the board then but when he read the audit report, the trend he starts to see was we started to have some concerns about our student receivables. A second CPA firm was bought in to review the student receivables because of the Board concerns. The CPA firm suggested that it was a gap in what we were reporting then what we actually had in our receivable base. The amount was a huge number, possibly a couple million dollars. I do not know if that was ever resolved. In addition, it was a nine hundred something thousand dollar adjustment that was made to that account without the knowledge of the Board.

President Elzey said in standard operations procedures, the auditor will make the committee aware of that during their presentation. Trustee Grant suggested that while we are looking at our policies we can benefit from your guidance (President Elzey). I understand that is the practice but I do not know if our policy speaks to it specific. We can use your guidance to straighten up those areas that affect our books.

Mr. Eaton stated he can’t speak on two years ago, but in BDO’s presentation in conclusion of the financial audit, part of that presentation presented record line adjustments and past line adjustment. That is their opportunity to present to the committee what adjustments were made over the course of the audit, which adjustments were pretentiously identified but deemed not material to adjust during the course of the audit.

Mr. Poulos said that based on our review of the 2011 work papers for the predecessor auditor and management. That was a pre-2012 issue that we did take a more detail look at per Trustee Grant request during the course of the audit. Based on the detail review we felt that the results were appropriate. They have a very systematic approach work; they did a trend analysis of how much was collected each year based on the year it was earned. Based on the historically trend they did a good job in my opinion based on other higher education institutions to analyze the information.

Trustee Fleming said that some of the same problems occurred in our last audit, such as the P-13 forms and dual employment forms; you have recommended a plan of action so it wouldn’t happen but it is still happening? What happens if the same things keep happening? If we keep making mistakes on dual employment forms, paying people for time they are not to paid, who is ultimately responsible?

Mr. Poulos stated ultimately, the university is responsible. From our standpoint we are required to communicate that to you and it is up to management at the university to remediate that deficiency. I know that management has been working on remedying all of the prior findings. As part of our 2013 procedures, we are investing time in following up on each one of these finds to see if in fact that have been remediated. The university has reach out to us throughout the year asking very specific questions about the findings. That leaves me to believe that University have been looking and remedying the deficits.

When we meet again to present our audit results, we will have more information as to where things are.
Mr. Poulos indicated that some of these items will take time to clean up, the financial management letter came out in October of last year, the NCAA management letter came out in January of last year, and the A-133 management letter came out in March. A good portion of fiscal year 2013 has already occurred when some of these findings were released. As an echo, of what President Elzey said, you will hope to see a trend in the right direction this year and then by next year all of the findings should be clear.

Mr. Poulos stated that part of the issue that created this, is not that of the predecessor administration; it was the prior auditors who missed all of this. When we went to review the 2011 work papers, they had clean reports. The A-133 report, which is a public document, didn't report any of this information because of the procedures they were performing. When we came in last year, this was the reason of the significant “change of scope” based on our planning procedures. Trustee Grant asked, do we have any questionable costs where it could pretentiously cause for us to pay back funds cost?

Mr. Poulos said last year it was one finding pertaining to questionable cost. It was a journal entry recorded by someone who is no longer with the administration. It was related to Title III funds in the amount of $100,000. The journal entry allocated Title III funds and it didn’t have the supporting documentation. We found this to be a questionable cost. The university reflected this in their financial statements last year. The expense was unrestricted.

Lastly, we will be revisiting each one of these findings during our 2013 audit. We will be reporting to the board which ones were remediated, which ones were partially remediated and which ones remains open.

Trustee Grant asked if we have had these findings one-three times, it seems there need to be some actions. We cannot continue to allow for these type things to continue happening. We cannot continue to get these same types of reports and there’s nothing being done about it.

Trustee Dawson stated I think the previous board began the process when they hired the new CEO (President); I think the general assembly began the process by their actions when they decided we were going to serve on the board. The next step is going to be our focus; do we have the accountability measures. Everyone in this room is getting measure on those accountability measures and performance standards and if they are not we do something about it.

2013 AUDIT PLAN

Mr. Poulos reported that the 2013 plan of lesson summarizing what the engagement team objects are: what the strategies are; what could be auditable areas; what the time table looks like for the audit and independence and fraud consideration.

On page three of this document is a snap shot of the executive service team. On page four, our objectives are to audit the 2013 financial statements of the university. We do plan and are required to perform the procedures according to the General Accepted Auditing Standards (GAAS) that are acceptable by the United States in additional to the government standards. We will also be performing an A-133 audit over the university’s major programs.

This year we believe it was three major programs, 1) Student Financial Assistance cluster 2) Title III Program and 3) Research & Development cluster. This is just an estimate based on what we have seen so far. Once we received the financial information we will be able to conclude on the three major programs.

We will be conducting a full review of our compliance testing over the three major programs mention earlier (A-133). Is any weakness or deficiencies relating to the internal controls, we will be reporting that information to you as we did last year? Lastly, we will be reviewing, if we are inline as it relates to the NCAA rules and regulations.
On page five you will see our strategy areas. We completed a risk assessment during the planning stage of our procedures. Based on those risk assessments we determine whether something was higher risk, moderate risk, or low risk. We spend more time on the higher risk for fraudulent reasons. We do evaluate the threshold for materiality. What maybe applicable at the beginning of the audit may not be applicable at the end of the audit. We also tend to focus more of our time and efforts on accounts where judgments played a role. For example, the allowances for doubtful accounts, that is an estimate and the information can be considered bias and leave room for errors. We will also be looking at the University information system to ensure it is appropriate given the size and complexity of the university.

Trustee Dawson questioned the use of two powerful words, “to detect material error or fraud” How did you come up with this?

Mr. Poulos indicated that the information was taking directly from our audit metrology. Our audit standards require us to be on the look out and have professional judgment for fraud. Right now, no. Based on our preliminary procedures we have not notice any significant fraud. President Elzey stated that when the auditor provides us with their auditing results they will tell the board and the committee specifically if they identify any indications of fraud.

Mr. Poulos said that is correct. What we are doing differently this year, we will be send out fraud affirmation to each board member to see if they are aware of any fraud. Not that I am expecting any fraud activity. By sending it out to each board member I am not asking in front of everyone. Please be on the lookout for this information within the next two weeks. We will keep count of who returned the information and following up until all of them have been collected. We are required under out auditing standards to report to the board any fraud we detect.

Trustee Grant stated he would like for our President to get with counsel about our priority list to see if something is there. Some of the findings we may not have been privilege too. We need to look at some of the findings that were discovered by this new auditing team that wasn’t or could have been reported. I am not trying to point fingers. What I am trying to get at is the fact that not only did we rely on the information presented; others relied on the same information. If there were shortcomings, I think it should be explored. What type of audit is this?

Mr. Poulos pointed out that it is a simple base audit. If something was missed it could be the possibility it was not selected in that sample base. We have our procedures based on the risk assessment. If you have some areas that you would like for us to review, please bring it to our attention. We will be happy to address them. I couple were bought to our attention last year and we actually executed them.

Ms. King shared that page six gives you an ideal of the types of areas of which we will be looking: 1) for cash and cash equivalence, it is very standard procedure. We will actually confirm the actual balance with the bank. 2) Support notice in the financial statements, with accounts receivable and the allowances we will be examining the accounts and reviewing the aging receivables, again the information must be able to support the information present in the financial statements. 3) Grants Receivable we will be reviewing the contracts to ensure the underline balance is correct, receipts to show this money has been actually received. 4) Capital Assets, we participate in an observation of this process in early July to see how this process was being completed. We are to ensure federal assets are appropriately tag and items are being written off the books correctly, and to ensure the policy and procedures are being followed as you would expect.

A copy of The Board’s Self-Assessment was distributed. The Trustees were given several minutes to complete the self-assessment to determine if there were opportunities for improvement. See Attachment 3

An estimated range of 2013 out-of-scope fees was summarized based on the results of the 2012 audit and the related impact to out-of-scope fees, page 9 of 2013 Audit Fees.
PRESIDENTIAL REPORT

The University has been working very intensely for incoming class with initiating from following campus improvements: 1) dorms and facilities are ready 2) took extra steps to ensure all outside lights are operational, 2) some improvements to athletics facilities, restricting and filling in pot holes in the street. President Elzey is considering the possibility of increasing the parking fee for employees parking on the campus, which would generate funds to address street and parking issues.

We anticipate the repair of the tower clock along with the chime playing at Whittaker Library by the end of August. Looking to use some Title III money with the improvements. Some infrastructure with HVAC chiller in Turner Hall and another building, classroom repairs and buildings were vandalized. Working on replacing locks and doors. In the process of getting Williams Hall back on-line for freshman women.

A draft organizational chart was distributed. President Elzey stated it is a work in progress. Many areas needed attention. Changes were made to Institutional Advancement which will focus on fund raising of the University, and an annual fund raising event for athletics as well as others.

External Affairs will manage all affairs and communication across the campus, whether it is newsletters, bill boards, social media, marketing, media, radio and television, no boundaries to external affairs and communication. All cabinet members must understand the need for cross collaboration and communication, and working as a team. No silos.

Trustee Grant questioned the hiring of two vice presidents without consultation with the Board members according to the bylaws. After much discussion among the trustees on the words “consult” and “inform” Trustee Small motioned that the bylaws committee meet with the President and discuss the policy and the bylaws committee would report back to the Board with a recommendation that confirm the policy of the Board or something better. Seconded by Trustee Dawson. The motion passed 11 to 2. Trustee Grant and Lott voted nay.

A meeting with Controller General Richard Eckstrom, State Treasurer Curtis Lofts, and Assistant State Treasurer Rick Harmon to discuss the University’s cash flow problem. They are committed to work with the University in determining a long-range plan to help the University to move forward. More details are forthcoming. He is requesting help of all trustees to accomplish.

Mr. Craig Burgress was introduced as the new General Counsel.

EXECUTIVE SESSION

The Chair asked for a motion to go into Executive Session. Trustee Grant so move that the Board go into Executive Session to receive legal advice, second by Trustee Nielsen.

OPEN SESSION

The chair stated no actions or votes were taken in Executive Session.

ADJOURNMENT

The Chair asked for a motion to adjourn. Trustee Grant so moved, second by Trustee Henegan.

The meeting adjourned at 4:27PM.

All referenced attachments are made a permanent part of these minutes.
Respectfully submitted,

Linda Edwards Duncan
Secretary

Eartha Mosley
Recorder

Attachments
1 – Agenda
2 – Minutes
3 – Attachments (3 and 4)