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Audit Committee, April 18, 2007

Coastal Carolina University

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**Minutes
Coastal Carolina University
Board of Trustees**

**Audit Committee
CCU Waccamaw Higher Education Center
Wednesday, April 18, 2007**

Members Present: Mr. J. Wayne George; Mr. Clark B. Parker, chair; and Mr. Tommy M. Stringer

Other Board Members Present: Mr. Fred F. DuBard, Jr., Mr. Samuel H. Frink, and Mr. Charles J. Hodge (by telephone)

Others Present: Dr. Ronald R. Ingle, Mr. Melvin Barnette, Mr. Todd Barnette, Mr. Doug Bell, Mr. Steve Blake, Ms. Stacy A. Bowie, Mr. Dave Bredekamp, Dr. Janis W. Chesson, Mr. Josh Chesson, Dr. Debbie Conner, Dr. Edgar L. Dyer, Mr. Stanyarne Godshall, Ms. Alison Hawk, Dr. Sally M. Horner, Ms. Linda Lyerly, Mr. Tim Meacham, Ms. Anne Monk, Mr. Marvin Marozas, Dr. Danny Nicholson, Mr. Keith S. Smith, Dr. Judy W. Vogt, Dr. Richard N. Weldon, Ms. Walda Wildman, Dr. Lynn Willett, Ms. Nila Hutchinson, and Ms. Chyrel Stalvey

(In accordance with the requirements of the South Carolina Freedom of Information Act, the news media were notified of the time, location, and agenda for the meeting. Ms. Jessica Foster and Mr. David Wrenn of **The Sun News** were in attendance.)

Mr. Parker called the meeting to order at 8:10 a.m. and asked Mr. Frink to offer an invocation. External auditor, Steve Blake, of Cline, Brandt, Kochenower & Co., PA, external legal counselor, Tim Meacham, and Mr. Parker's associate, Alison Hawk, were introduced.

Mr. Stringer moved to approve the Audit Committee minutes of January 12, 2007. Mr. George seconded and the motion carried.

Mr. Parker recalled his long association with Coastal Carolina--the Alumni Association, Horry County Higher Education Commission and the Board of Trustees. He stated that the meeting is to assure that the university has sound policies and practices.

Dr. Ingle stated that previously the Planning & Fiscal Affairs Committee performed auditing duty. Last year, external auditor Walda Wildman recommended to the Board that the audit function should be separated into a standing committee and the Audit Committee was formed. Dr. Ingle agrees with the change because in a time of

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declining state funding for higher education in general, and particularly Coastal Carolina, it is essential that checks and balances and efficiencies are in place to effectively use the scarce resources. Establishing the Audit Committee to review all the fiscal functions is a correct step.

Coastal Carolina is fortunate to have outstanding employees who are hard working, dedicated and perform their jobs with enthusiasm. Presidents cannot have their hands on every function, but presidents are responsible for all the activities of the institution. As Harry Truman says, "The buck stops here." As we work through the process of building in efficiencies, we will be a more effective and stronger Coastal Carolina University.

Dr. DeCenzo added that as president-elect he has the obligation to protect the integrity of the institution. An audit offers the opportunity to find areas where changes are needed, to make changes, and to consider opportunities for further improvements. As more information comes forward, improvements will be made. Areas needing to be acted upon will be acted upon quickly. Equally important is to find out how things go awry. This is all part of trying to figure out where we are and where we are going. He anxiously awaits the final report from the Audit Committee and the external auditors. This is an opportunity to start the first element of self assessment by taking a good, hard look to see where improvements need to be made.

Dr. Horner, former chief financial officer for 22 years, stated that Coastal Carolina has a sound financial foundation. During her tenure, the university operated in the black every year and had clean audits all of those years. In a few instances, there were minor things to be corrected. There were also regular federal audits and procurement audits to assure compliance with the State Budget and Control Board regulations. Although there may be disagreements with specific expenditures, all expenditures comply with the relevant regulations. After the Audit Committee report, changes may be in order and policies changed. Coastal Carolina is considered exemplary by its peers in SACS. Dr. Horner recalled the years of very successful operations hailed by external peers and internal auditors. She commended the committee and stated that she would be pleased to furnish any information needed by the committee.

Mr. Hodge stated that Coastal Carolina has done a wonderful job during a time of diminishing state funds and has maintained a sound fiscal footing. This transition time with a new incoming president is an opportune time to examine university finances and to assure the best possible financial footing. The standing Audit Committee was formed to do just that and discussions for this started well over a year ago. The purpose is to do what we can to make Coastal Carolina as fiscally sound as possible. We have an outstanding staff of individuals who have protected this university and put us into a position to advance in the future. Any organization can improve. Once the audit has been completed, we will make whatever changes are necessary. He is proud of Dr. Ingle, the university staff, and the administration. He is particularly appreciative of the men and women who volunteer, donating many hours, on the Coastal Educational Foundation and the University Housing Foundation.

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Mr. Bredekamp stated that the internal audit function was established in 1999 with his hiring. The internal auditor provides the university with an independent appraisal function. There are three types of audits performed---financial, operational, and compliance. The auditor evaluates the effectiveness of internal controls, assesses the accuracy of the financial records, safeguards assets, ensures compliance with federal and state laws and university policy, and ensures efficiency of the operations. The internal auditor reports solely to the Audit Committee.

Mr. Bredekamp believes that the audit function could work more efficiently and provide more service to the university with two additional staff members—an information technology auditor and an internal auditor. This additional staff could help complete the 5-year plans, and develop and implement it. It would also add technical expertise necessary to evaluate the information technology area.

Mr. Blake highly recommended performing a risk assessment and sharing its findings with the Audit Committee. If additional staff is necessary to do this, he recommended the new hires. He asked to see the current risk assessment before the upcoming audit.

Mr. George made a motion to recommend to the administration the hiring of two new staff members for the audit department and Mr. Stringer seconded. The motion passed.

Mr. Parker advised the external auditor to hire external legal counsel. He listed items to be forwarded from the Audit Committee to the internal and external auditor for assurance of proper procedures:

- Professional Contracts
- Discretionary Spending
- Hiring Practices
- Affiliated Foundations: Coastal Educational Foundation (CEF), CCU Student Housing Foundation, Long Term Leases, Quail Creek Golf Course

Mr. Parker cautioned the administration regarding discretionary spending.

Human Resources was asked to provide a list of hires over the last five years with attention to those who have family connections and a breakdown of the staff to assess whether or not the university has normal staffing.

He reviewed the balance sheet and long-term leases. More information was requested regarding the Quail Creek Golf Course lease.

Coastal Carolina has a \$114 million balance sheet, \$43 million debt, and \$71 million equity. The Student Housing Foundation has \$39 million in assets, \$42 million debt, and negative \$3 million equity; CEF has \$24 million in assets, \$984,234 debt and

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\$23 million equity; the Higher Education Commission has \$2 million assets, \$229,000 debt, and \$1.8 million equity; and Coastal Carolina Athletics has no assets but \$4.9 million in commitment and obligations of debt.

Mr. Parker expressed concern regarding the Student Housing Foundation debt which is comparable to what is owed by the entire university.

Coastal Carolina has off balance sheet debt and long-term leases are \$1,215,290. The CEF has property leased for \$1,856,400 and we have an option to buy at the end of seven years for \$2.5 million. Mr. Parker inquired why these properties were not purchased in the beginning.

Other affiliations supporting the university—the CEF, athletics, CCU Student Housing Foundation, Horry County Higher Education Commission, and now the arena—have the opportunities for spending lots of money. The university may be liable for their commitments in cases of defaults. Mr. Hodge noted that the Student Housing Foundation agreements state that the university has no financial responsibility if a default occurs.

When the arena is built, it will also become a long-term lease arrangement for \$400,000/year—another off balance sheet debt.

The committee, Dr. Ingle, Dr. DeCenzo, and Mr. Barnette went in Executive Session to discuss contractual issues and the presidential package. No action was taken during Executive Session.

Dr. Weldon briefly reviewed the general procurement procedures provided by the state. The procedures for the Materials Management Office, Information Technology Office and State Engineer's Office were also provided. Coastal Carolina's Office of Procurement reports directly to Linda Lyerly. The State Procurement Office audits Coastal Carolina annually and reviews every purchase order, to assure proper bidding procedures. The Materials Management Office ensures large purchases are in accordance with guidelines. The State Engineer's Office also keeps a close watch on construction contracts, and they approve all construction capital improvements and supervise all the bidding.

Mr. Parker noted that eight leases are below \$24,000. The Audit Committee will review the leases to make sure that there are no undisclosed backdoor issues of commitments.

Mr. Weldon stated that every state agency is given a level of leases that they can handle on a local level without prior approval through the state process. The limit is \$25,000 or less. All leases are submitted to the Budget and Control Board office staff for review. Leases over \$25,000 goes to the SCCHE (their staff and legal counsel will review), the Joint Bond and Review Committee, and the Budget and Control Board for final approval. The only thing outside the lease document would be certain statutory privileges that the state retains for itself, i.e., if the state agency can't afford the lease, it

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can be cancelled; or if a state building becomes available that is better suited, the lease is cancelled. This protects state agencies from unforeseen circumstances—down turn in economy, etc. The state is not normally in favor of large multi-year leases; it may be better to purchase.

The Waccamaw Higher Education Center has a five-year lease with options to renew for multiple five years. The CCU Reserve, LLC, with registered agent E. O’Neil McCoy lease has gone through the State Budget and Control Board. Dr. Dyer stated that there is an option to purchase.

Mr. Stringer asked who was responsible for negotiating each lease. Dr. Weldon stated that any lease entered into goes through his office, the University Counsel and the state leasing office for review.

Mr. Parker emphasized that we need to make sure that the ownership of the leases or the ownership of the property pass the test of the conflict of interest as a lease is entered into.

The members of the Board of Trustees and the Vice Presidents were asked to sign the “Conflict of Interest Disclosures” statement supplied by Mr. Parker. The other Board members will be asked to sign this statement as well.

With no further business, Mr. Stringer moved to adjourn the meeting.

Respectfully submitted,

Samuel H. Frink
Secretary/Treasurer