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Audit Committee, June 12, 2008

Coastal Carolina University

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**Minutes
Coastal Carolina University
Board of Trustees**

**Audit Committee
Williams Brice Recreation Center, Room 114
June 12, 2008**

**Members of the
Committee Present:** Mr. William S. Biggs, Mr. Clark B. Parker, and
Mr. Tommy M. Stringer

**Committee Members
Not Present:** Dr. Hal B. Holmes and Mr. H. Delan Stevens

**Other Board Members
Present:** Mr. Robert G. Templeton

Others Present: Mr. Steve Blake, Ms. Stacie Bowie, Ms. Lori Church, Mr. Wade Dawson, Dr. David A. DeCenzo, Ms. Mary Eaddy, Ms. Rose Marie Ely, Mr. Wilbur L. Garland, Mr. Abdullah Haddad, Ms. Alison L. Hawk, Mr. Chris Johnson, Mr. Mike McClellan, Mr. Tim Meacham, Ms. Anne T. Monk, Dr. Julinna Oxley, Dr. Yoav Wachsmann, Dr. Susan Webb, and Ms. Nila Hutchinson

Mr. Stringer called the Audit Committee to order at 9:30 a.m. New trustee Robert Templeton was welcomed. Mr. Stringer was congratulated on being elected the Republican nominee for the House of Representatives.

Mr. Biggs moved to approve the April 3, 2008 Audit Committee minutes and Mr. Stringer seconded. The motion passed.

Ms. Bowie reviewed Will Garland's letter of June 11, 2008 to external auditor, Steve Blake, which was an update on the status of the audit findings pertaining to the FY07 year-end close and what has been completed to correct the findings.

Mr. Stringer asked to have the fringe benefit reconciliation report and the procurement card exam report to review in the Finance Committee.

Mr. Blake stated that preliminary work for the 2008 audit is already taking place. He noted that the responses mentioned above will be reviewed as part of the 2008 audit; and, if incorrect, it will become a finding in the new audit. A copy of the Executive Summary of June 2006 Committee of Sponsoring Organizations (COSO) Report was distributed. The definition for internal control has been adopted by every professional association in the United States. Internal control is divided into five areas: who approves and signs the checks; control environment—what governing officials consider important and how they interact in the internal control system;

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communication and information; risk assessment; and, monitoring. Monitoring is the most important area of internal control.

He asked the committee to develop a working definition of what is considered significant matters for the external auditors to report back to the committee.

The external auditors are developing their own risk assessment.

Mr. Stringer asked if there was a penalty or licensing problem if the response findings from last year's audit were incorrect. Mr. Blake responded that if there is material or misleading information in the financial statement and the resident CPA is aware of it, it is an act discreditable to the profession under Rule 501 for the CPA not to tell the external auditor. By hiring a CPA, the bar has been raised for the requirement of reporting to a significantly higher level. The CPA could lose their license if he/she is aware of things that should be in the financial statement and they are not communicated to the external auditor.

Mr. Parker would like to have financial information presented initialed by the preparer and the date prepared.

Mr. Haddad reviewed the methodology used for the Information Technology Services risk assessment process: 105 activities were identified which were grouped and prioritized in 14 categories (critical services, support and monitor, security, human capital management, administration, training, etc.). One hundred and sixty-eight risks associated with these activities were identified and assigned impact ratings of high, medium and low, based on defined consequences plus probability ratings of high, medium and low.

A risk matrix spreadsheet was generated to identify critical risks. Each risk was reviewed by category and risks were assessed. Additional controls to minimize the consequences of the risks were identified. Two hundred and fifteen controls were identified and mapped to risks.

Mr. Blake stated that ITS has become a critical financial audit area because of how it impacts who can access the data and how it flows into the financial statements. Mr. McClellan responded there is an administrative system and an accounting system which are forced to change their passwords on a regular basis. Shortly, university systems will require a change of password. Ms. Hawk stated the internal audit information is input and backed up every day. Not even ITS has access.

Ms. Loris Church reported on the Financial Services risk assessment which was divided into five areas: general accounting and financial reporting, accounts payable, purchasing, student accounts receivable, payroll and grants and tax accounting. Each area filled out a risk assessment.

Financial Services has one high risk area - payroll. If we have system problems, we cannot afford for there to ever be any issues. There needs to be a backup.

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Ten medium risk areas were identified: controls over wire transfers, funding for maintenance and operation of facilities, facilities accounts are not overspent, cost of project does not exceed the budget, ways to keep continued funding, records are updated in timely manner and reports are correct or inventory verified, all individuals or processes involved when making changes to financial systems are involved, internal financial reports should be accessible to budget officers, direct deposit information entered correctly for each employee, and making sure student accounts are credited for the right amount person and ledger.

The current controls in place:

- Documented operating procedures available to employees
- Management review of transactions
- Documentation required to support each transaction
- Timely account reconciliations each month
- Restricted access to financial systems
- Transactions must be properly authorized
- Continuous monitoring of budgets
- Related Party and Conflicts of Interests forms required

Future plans include:

- Continued education and training of staff
- Renewed emphasis on, awareness of and knowledge of internal controls
- New culture of accountability
- Additional segregation of duties
- Improved processes, i.e. automation

Mr. Blake feels that some assessment and thought needs to be given to having the payroll and human resources functions vested in one individual.

Ms. Church stated that Datatel is not currently producing what is needed. Dr. DeCenzo stated that this had been a discussion in the Institutional Advancement Committee and will be a topic for future discussion.

There are concerns regarding Quail Creek because it is off campus and could be a target for theft. Larry Peak has just been hired and he has golf course accounting experience. He has completed a risk assessment of the golf course. The current controls in place include: daily required deposits, management review of deposits, account reconciliations, and audits of inventory.

Ms. Church stated that there are many accounts. The employee who performs the journal entries also does the reconciliations. Ms. Bowie and she are looking at all of the reconciliations. There is a compensating control. Ms. Church feels that the process is a good one.

She feels that her function is to audit. Communications have greatly improved and improvements are being made as quickly as possible.

Mr. Stringer asked to have hard copies of the risk assessment for the committee members and would like to have a hard copy each committee meeting.

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Ms. Bowie complimented Ms. Church on the risk assessments. Mr. Stringer expressed appreciation to her for going beyond the call of duty.

The procurement audit test with the list of employees who have taken the test and their scores were given to Mr. Stringer.

Ms. Bowie reviewed the State's MMO audit regarding procurement. Typically the audit is every three years and this audit included 2004-2007. The responses to each of the items were included. However, the certifications of our internal procurement office's purchase level authority was reduced by half as a result of the audit. The MMO proposal was that we would continue with the certification as they had been and then before the Budget and Control Board on May 13 cut them in half with the stipulation of another audit in another year, rather than waiting for three years. Our certifications will be reviewed next year.

Mr. Stringer stated that he called Mr. Singleton and thanked him for performing the audit. He also asked him why he was not doing that at every Budget and Control Board meeting as he feels that it is an issue across the state. Mr. Singleton was also asked why some of these items were not found in the prior three-year audit. The state's audit is not as intensive as they think it is. They were responding to our own self reporting. We need to resolve the culture of accountability on campus.

Ms. Bowie stated that the certification limits won't really cause us too many problems with the exception of construction services—going from \$100,000 to \$50,000 requiring state approval. Some of our projects could be delayed up to three months.

The Procurement Audit Report (July 1, 2004 – June 30, 2007) responses were reviewed. The audit findings in the procurement report are more specific than the audit findings in the financial statements. Ms. Bowie reviewed each of them:

- The University is restructuring the fund source "15" to include only funds which are derived wholly from athletic or other student contests and from the activities from student organizations. This is the second and final step to complete the conversion of "15" funds to "10" funds to comply with the Procurement Code. Mr. Garland noted that that on the "15" funds, we were at a recent conference and all comprehensive universities in South Carolina were doing the same thing the University was doing. We were a year ahead in recognizing that the change needed to take place.
- Any funds which are expended through the University on behalf of the University Place are subject to the State Consolidated Procurement Code and the Code will be applied to any purchases accordingly.
- Facilities Management has been counseled that the State electrical utility exemption is for electricity only. Any additional services provided by electrical utilities are not exempt and the Procurement Code must be applied accordingly. The University's Risk Management Office assumed that it was appropriate to deal directly with the contractor for the repairs since an insurance claim was involved. Everyone has been counseled.
- Facilities Management has been in consultation with the Office of the State Engineer and is revising their IDC bids to ensure future delivery orders are priced in accordance with

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vendor multipliers. Facilities Management was counseled and is closely monitoring all orders over \$50,000 to ensure that performance bonds and labor material payments bonds are obtained on all orders. Performance bonds and labor material bonds were not being held on file and will be kept on file in the future.

- Facilities Management has been counseled regarding retention exceeding maximum limits and retention will be limited to 3.5% in the future.
- Facilities Management will carefully review all future contracts to obtain certificates of insurance and ensure that a copy of the Notice to Proceed is kept for all projects.
- The University now requires Board of Trustees' approve to hire consultants.
- There was a misunderstanding in the Procurement Office as to the procurement card limit per transaction. No purchase on the procurement card can be more than \$2,500. A purchase from the Prison Industries was more than \$2,500 and was handled incorrectly. Because the purchase was from Prison Industries and exempt from the Code, the department assumed there was no problem splitting the payment. The department has been counseled that purchases which exceed \$2,500 cannot be split to make payments with the procurement card regardless of the requirements of the Procurement Code. A yearly certification program has been instituted and in subsequent years, the quiz will test the basics as well as hit on changes to the policy so that each cardholder is kept up to date on the current procedures and responsibilities.
- The Procurement Office will more fully explain and document how multi-term reasons apply to each solicitation. The Procurement Office will more closely review the purchase order renewals to ensure that they comply with the original solicitation term and that award postings comply with the Code and Regulations.
- The Procurement Office will more fully document the determinations with facts and reasons for emergency and sole source procurements.
- In regards to the Discover card, the University is using the contract established by the Office of the State Treasurer in February of 2008 that includes all credit card transaction fees for MasterCard, Visa, American Express, and Discover.

Ms. Hawk reported that final interviews will be conducted Friday afternoon for an additional auditor and trustees were invited to attend. The second hire will be delayed. She now has a temporary administrative person. Office space is currently being assessed.

By way of information, Dr. DeCenzo distributed the Request for Exception to the Nepotism Policy which is now required. If there are any changes regarding a reporting line or relatives are transferred to the same administration unit, the president will be notified immediately. Dr. DeCenzo will make a report to the Board once a year regarding exceptions requested.

After reviewing the Fisher Report, Dr. DeCenzo stated that it is now clear that we have inefficiencies in some areas. We are top heavy in administrative personnel. Effective immediately, there is a hiring freeze on campus. This is primarily at the administrative level. There will be some exceptions which will be approved on an exception basis. Faculty hiring will continue.

Dr. DeCenzo stated that there are inefficiencies on campus and asked permission to assign Ms. Hawk, as director of the internal audit, to embark on a six-month project to make

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recommendations on potential areas for outsourcing on campus. By the end of the next budget cycle, he would like to streamline some areas.

Mr. Parker made a motion for the Director of Internal Audit to make recommendations for outsourcing and improving services by the end of 2008. Mr. Stringer seconded and the motion passed unanimously.

Dr. DeCenzo will work with Ms. Hawk on some areas to be considered, analyzed and make recommendations.

With this recommendation, the hiring of an additional auditor may need to take place sooner in order to conduct this survey. Dr. DeCenzo will make sure that Ms. Hawk has the resources to accomplish the task.

There being no further business, the meeting was adjourned.

Respectfully submitted,

Tommy M. Stringer
Secretary/Treasurer