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University of South Carolina  
BOARD OF TRUSTEES

Audit and Compliance Committee

March 27, 2015

The Audit and Compliance Committee of the University of South Carolina met at 1:50 p.m. on Friday, March 27, 2015, in the 1600 Hampton Street Board Room.

Members present were: Dr. C. Dorn Smith III, Chairman; Mr. Hubert F. Mobley; Mr. Thad H. Westbrook; Mr. Mack I. Whittle, Jr.; Mr. Eugene P. Warr, Jr., Board Chairman; and Mr. John C. von Lehe, Jr., Board Vice Chairman. Ms. Paula Harper Bethea joined the meeting by telephone. Members absent were Mr. J. Egerton Burroughs and Mr. Charles H. Williams.

Other Board members present were: Mr. Thomas C. Cofield; Mr. A. C. "Bubba" Fennell III; Dr. C. Edward Floyd; Mr. William W. Jones; and Ms. Leah B. Moody. Mr. Toney J. Lister joined the meeting by telephone.

Also present was faculty representative Dr. James H. Knapp.

Others present were: President Harris Pastides; Secretary Amy E. Stone; Chief Operating Officer Edward L. Walton; General Counsel Walter "Terry" H. Parham; Chief Financial Officer Leslie Brunelli; Interim Provost Helen Doerpinghaus; Vice President for Student Affairs Dennis A. Pruitt; Vice President for Information Technology William F. Hogue; Vice President for Human Resources Chris Byrd; Vice President for Facilities and Transportation Derrick Huggins; Executive Director of Audit & Advisory Services Pam Doran; Chief Communications Officer Wes Hickman; Associate Vice President for Business Affairs, Division of Administration and Finance, Helen T. Zeigler; Associate Vice President and Chief of Police Chris L. Wuchenich; Executive Director for the Office of Economic Engagement William D. "Bill" Kirkland; College of Arts and Sciences Dean Mary Anne Fitzpatrick; Dean of Libraries Thomas F. McNally; University Treasurer Pat Lardner; University Controller Jennifer Muir; Executive Director, Student Health Services, Debbie Beck; Chief Financial Officer, Athletics Department, Jeff Tallant; Director of Facilities Design and Construction Jeffrey D. Lamberson; Director of Capital Budgets and Financing, Division of Administration and Finance, Charlie Fitzsimons; Chief of Staff, President's Office, J. Cantey Heath, Jr.; Associate Chancellor, Business and Human Resources, Palmetto College, Kevin Russell; Risk Manager, Division of Environmental Health and Safety and Risk Management, Brian Hann;

Director of Parking Services Bill Baker; Audit & Advisory Services Assistant Director Glenn Murray; Managing Audit Consultant, Audit & Advisory Services, Andra Lunsford; Insurance Services Coordinator, Division of Environmental Health and Safety and Risk Management, George Caughman; Executive Vice Chancellor for Academic Affairs, USC Aiken, Jeff Priest; Tom McNeish, with the audit firm of Elliott Davis, LLC; University Technology Services Production Manager Wes Reardon; Board staff members Terri Saxon and Ina Wilson.

I. Call to Order

Chairman Smith called the meeting to order, welcomed those in attendance and asked them to introduce themselves. Mr. Hickman stated that Jamie Self with *The State* newspaper was in attendance.

Chairman Smith stated that the agenda had been posted and the press had been notified as required by the Freedom of Information Act; the agenda and supporting materials had been circulated to the committee members; and a quorum was present to conduct business.

Chairman Smith called on Ms. Brunelli, who explained that the University's external auditor prepares audits in addition to the required financial statements. In compliance with the Southern Association of Colleges and Schools (SACS) requirements, separate system campus audits were conducted. In addition to the campus audits, the University is required to audit the Horizon and Discovery Parking Garages and the Department of Athletics Agreed-Upon Procedures for the NCAA Division I USC Columbia and Upstate campuses.

Ms. Brunelli announced that the University received the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting Program for the fourth straight year. She recognized University Controller Jennifer Muir and her staff for their efforts toward this accomplishment.

Trustee von Lehe asked Ms. Brunelli if she thought there was any "financial hope" for the Horizon and Discovery Parking Garages. She responded that although the garages "did not earn their keep in the first three years," they would break even this year. Trustee Whittle asked if a pro forma had been conducted on the garages, and if so, who performed it. Ms. Brunelli clarified that the pro forma was based on the assumption of full occupancy of the Horizon and Discovery buildings, which did not occur. However, Ms. Brunelli noted, due to the loss of surface parking behind the Coliseum for the West Campus Development Project and the new Darla Moore School of Business, both garages were now full.

Ms. Brunelli called on Mr. Tom McNeish to present the external audits.

II. External Audits – Elliott Davis

A. Horizon and Discovery Parking Garages, FY 2013 and 2014

Mr. McNeish noted that the audit was required as part of the debt agreement on the garages. He said that the auditors had completed their work, and based on the audit procedures performed, issued an unmodified opinion on the garages financial statements. He noted that there was an annual revenue increase of 29% and an annual operational expense increase of 3%. There also was net operation cash available to service the debt payment.

Mr. McNeish stated that as a result of audit findings related to the processes and procedures for reconciliations, payroll tracking, and financial reporting, the responsibility for those functions was moved to the Controller's Office.

Trustee Fennell questioned the University's ability to meet the March 2017 balloon debt payment of \$4 million. He asked if the payment could be restructured. Ms. Brunelli responded that she and her staff were currently working on options to restructure the debt, including purchasing the garages outright from the Columbia Parking Facilities Corporation. She noted that the Horizon and Discovery Parking Garages loan was held by BB&T Bank and that the balloon payment was the taxable portion of the loan structure.

- B. USC Columbia and Regional Campuses, FY 2014
- C. USC Aiken, FY 2014
- D. USC Beaufort, FY 2014
- E. USC Upstate, FY 2014

Mr. McNeish noted that, as Ms. Brunelli mentioned earlier, the main purpose of conducting standalone campus audits was to meet SACS standards. He reported that Elliot Davis issued an unmodified opinion on those financial statements.

- F. USC Columbia Department of Athletics Agreed-Upon Procedures, FY 2014
- G. USC Upstate Department of Athletics Agreed-Upon Procedures, FY 2014

The NCAA Bylaws require that certain financial procedures be performed related to the Athletics Department. In the past, the University had included this process in the full University Financial Statement, which had met the NCAA requirements. It had been determined that it would be more effective, and more in the spirit of the NCAA Bylaws, to use the agreed-upon procedures (AUP) format, which is more specific. Mr. McNeish reported that the audits revealed no significant findings.

Chairman Smith thanked Mr. McNeish and stated that these documents were provided as information.

### III. Enterprise Risk Management Program

Chairman Smith called on Mr. Walton, who said that over two years ago a partnership between Enterprise Risk Management and Audit & Advisory Services (AAS) began working on the Enterprise Risk Management (ERM) Program. Mr. Walton introduced the Director of Enterprise Risk Management & Insurance Brian Hann to provide an overview of the program.

Mr. Hann began by explaining that ERM was a process led by senior leadership to identify risks across the entire enterprise; assess the impact of risks to operations and mission; to develop and practice response or mitigation plans; and to monitor the identified risks, holding the risk owner accountable, and to consistently scan for emerging risks. In his opinion, Mr. Hann said the number one benefit of implementing an ERM program is its ability to build a better risk awareness culture by having more people involved in identifying risks and controlling them.

Mr. Hann said ERM Program goals are to establish a management framework to support ERM; integrate ERM into existing processes; and support a collaborative risk-based decision making process. He noted that the guidance standard for the ERM implementation process was International Standards Organization (ISO) 31000-2009. He said that the ISO standard is broken down into two key parts: 1) development of an organizational structure to support ERM and 2) implementation of a process to identify, assess, treat and monitor significant risks.

The initial ERM organizational structure was implemented in August 2014. Mr. Hann listed the various ERM's committees and membership. He said the ERM Oversight Committee adopted the high priority risk areas identified by AAS in October 2014 and a draft ERM policy was now under consideration.

Mr. Hann concluded his presentation by noting the ERM Program's FY 2015-16 Implementation Plan that included: continuing to work with existing subcommittees to provide a more detailed picture of high priority risk areas; selection of specific risks for the ERM Oversight Committee to monitor; development of an ERM Oversight Committee dashboard; implementation of controls and mitigation plans to better manage specific tasks; formal adoption of an ERM policy; and strengthening the framework by including additional areas and subcommittees.

Mr. Hann responded to Trustee questions about the ERM Program. Chairman Smith thanked Mr. Hann for his informative presentation.

#### IV. Internal Audits/Reviews

##### A. University Libraries – Special Collections Audit Report

Ms. Doran explained that the audit encompassed four major special collections under University Libraries: the Irvin Department of Rare Books and Special Collections; the Moving Image Research Collections; the South Carolina Political Collections; and the South Caroliniana Library.

The audit scope was primarily limited to the financial and operational activities and transactions of the Irvin Department of Rare Books and Special Collections within the University Libraries for the fiscal year ending June 30, 2014. These two collections are the most significant in terms of dollar amount, with a \$190 million value. The audit extended to the security activities of Hollings Library, which houses both the South Carolina Political Collections and Rare Books Collections.

The audit included but was not limited to: procurement of acquisitions; establishment and tracking of loans of collectibles; physical security of the Hollings Library; and preservation and handling practices of employees and patrons. Concurrent with the audit, the Office of Risk Management performed a separate review of insurance, contracts, and disaster preparedness issues within Special Collections; and the USC Division of Law Enforcement and Safety performed a separate review of Hollings Library physical security. During these reviews, these two entities brought certain issues to the attention of management that were resolved prior to the conclusion of the audit.

In coordination with the scheduled renovation of the South Caroliniana Library, AAS also reviewed the relocation plan for the library's contents.

With the exception of two findings, the risk-based audit determined that the Special Collections within University Libraries was properly managing, in all material aspects, its resources and related risks within the scope of the review in accordance with University and departmental policies. Findings involving the Hollings Library Access Control Permissions and Access Card Reader were resolved.

Ms. Doran thanked the University Libraries management and staff, who she said viewed the audit as an opportunity to identify best practices within their operation.

Ms. Doran and Dean McNally responded to Trustees questions related to the approval and development of University Libraries policies for special collections.

Dean McNally provided an update on the Caroliniana Library renovation. He said that after being closed for a month, all one million volumes and 10 million manuscripts had been relocated to safer quarters, and were again available for patrons. Items will be returned on completion of the Caroliniana Library renovation.

Chairman Smith asked Ms. Doran to prepare prior to the next committee meeting a list of special collections and the owner of each collection.

Trustee Cofield encouraged Trustees to tour the special collections.

B. HIPAA Security Audit Report – Student Health Services

Before Ms. Doran reviewed the results of the Health Insurance Portability and Accountability Act (HIPAA) Security Assessment, she provided background on the HIPAA. She said that requirements for protecting health information had become increasingly more comprehensive since the act was enacted in 2003. Therefore, AAS engaged an information security consulting firm, Pondurance, to begin review of HIPAA compliance and Student Health Service (SHS) agreed to be the first area to be reviewed.

The audit revealed that overall SHS had made great progress toward compliance and that it was headed in the right direction toward demonstrating it had a compliance program in place. Ms. Doran noted that SHS Executive Director Debbie Beck and her team had done a great job navigating compliance and raising awareness of HIPAA requirements on campus. There were only four non-compliant findings, which were considered medium-risk. These findings were related to developing a comprehensive risk analysis and risk management process and developing a more robust contingency plan, to be used if SHS were to lose its IT systems during a business interruption.

Ms. Doran reported that action had already been taken on many of the recommendations and that SHS had partnered with UTS to address the remaining outstanding issues. These issues were added to the tracking report for follow-up.

As part of this engagement, AAS requested Pondurance to provide the assessment tools used in the review, as well as, to survey the University system to help identify other areas that may have Electronic Protected Health Information, so that AAS can continue HIPAA security assessments in those other areas.

Ms. Doran said that this audit also served as a baseline comprehensive risk assessment for SHS, which could be used to guide its ongoing risk assessments. Also, she added, AAS was currently working with the School of Medicine and the Trust to schedule a HIPAA compliance review.

C. Darla Moore School of Business Construction Progress Report VI

The scope for the report included payment applications that were incurred, approved, and paid from July 31, 2014, to February 28, 2015. The audit focused on whether payment applications and management fees were consistent with terms and conditions of the construction contract, and whether

change orders were reasonable and properly approved. In addition, auditors traced payment applications to the general ledger; verified the completeness of the reporting of expenses; and recalculated the expected project budget position based on costs paid to date, and management's representation of expected remaining costs.

Ms. Doran reported that the audit staff found no significant reportable issues during the course of the audit process.

D. Unlimited Travel Authorization Memorandum

Ms. Doran stated that during a routine review of travel expenditures for FY 2013-14, AAS determined that practices related to blanket travel authorizations approved through the Controller's Office were not consistent with University Policy BUSF 1.00 Travel. The policy states that individuals who do repetitive travel for a fixed period of time should file a blanket Travel Authorization (TA) for the estimated cost for the entire period. AAS determined that TAs without an amount limitation, indicated by a blanket travel authorization with a \$1 amount, had been approved.

The University's Travel Office reviews travel expense reports after completion of trips for compliance with the travel policy. Travel is approved through a TA form, and no further approvals are required by policy at the time of reimbursement. The practice of unlimited TAs eliminates the review and approval of the trip and its overall budget by the traveler's department head.

Following this discovery, AAS expanded the scope of its review to include offices and departments across the University system. AAS determined that 734 unlimited TAs had been authorized during FY 2013-14. It was noted that several of the unlimited TAs were from departments that required travel reimbursements be approved by department personnel prior to submission to the Travel Office. However, Ms. Doran noted, the Travel Office did not verify approval from the traveler's department prior to payment.

Ms. Doran said that AAS recommended that all TAs have an estimated cost for travel and that unlimited blanket TAs be stopped immediately, to comply with the travel policy. She noted that requiring departmental approval of travel reimbursements would strengthen the travel expense approval process; and that management should consider implementing this change as part of the PeopleSoft Finance system implementation.

Ms. Doran reported that the Controller's Office took immediate action to correct the issue, including the addition of a statement on the Intranet TA screen that stated, "All blanket Travel

Authorizations are required to have an estimated total dollar amount by purpose for the entire travel period. Please refer to Travel Policy BUSF 1.00 II. B.”

Dr. Knapp asked how this new procedure would affect faculty, who in some instances, traveled on official University business at no expense to the University. He explained that faculty were required to file TAs even in these instances, due to worker’s compensation insurance coverage. Chairman Smith asked Ms. Doran to look into Dr. Knapp’s concern.

E. Review of President’s Office and Board Office Expenditures for Fourth Quarter FY14 and First and Second Quarter FY15

Recently, Ms. Doran noted, the Controller’s Office assumed responsibility for the reporting and review of the President’s and the Board of Trustees Office expenses. As a result, AAS had observed significant improvement in the level of detail and organization of the supporting documentation for these expenses.

Ms. Doran said that the current review revealed no reportable issues and that expenses were being properly managed within the scope of the review.

In the course of the review, Ms. Doran noted, it was determined that the Chairman of the Board of Trustees, as required by Policy BTRU 1.15 University Personnel Expenditure Policy, was not routinely advised of the “monies spent entertaining anonymous prospective donors.” The Chief Financial Officer therefore established procedures to provide a quarterly report to the Board Chairman detailing the President’s development expenses. To date, AAS had reviewed the report sent to the Chairman for the first and second quarters of the 2015 fiscal year.

F. Tracking Report

Ms. Doran reported that the one previous outstanding audit issue dealing with the USC Lancaster Native American Pottery Special Collection had been resolved. The tracking report included the findings noted in the audits she had just presented.

V. Update of Board of Trustees Policies

A. BTRU 1.06 Audit & Advisory Services

Ms. Doran noted that the revised policy reflected only minor wording changes. Chairman Smith called for a motion to recommend full Board approval to update the BTRU 1.06 Audit & Advisory Services policy as presented by Ms. Doran and described in the materials posted on the Board Portal. Mr. Whittle so moved and Mr. von Lehe seconded the motion. The vote was taken and the motion carried.



B. BTRU 1.14 University Designated Funds Policy

Ms. Doran noted that this policy was required by state legislation and was first approved in 1987. The policy was now being recorded formally in the University's policy and procedures.

Chairman Smith called for a motion to recommend full Board approval to update the BTRU 1.14 University Designated Funds Policy as presented by Ms. Doran and described in the materials posted on the Board Portal. Mr. Whittle so moved and Mr. Warr seconded the motion. The vote was taken and the motion carried.

C. BTRU 1.20 Dishonest Acts and Fraud Policy

Ms. Doran noted that the only change in the policy was to update the name of the department of Audit & Advisory Services, and to reference the University's integrity line.

Chairman Smith called for a motion to recommend full Board approval to update the BTRU 1.20 Dishonest Acts and Fraud Policy as presented by Ms. Doran and described in the materials posted on the Board Portal. Mr. von Lehe so moved and Mr. Whittle seconded the motion. The vote was taken and the motion carried.

D. BTRU 1.22 Reporting Violations of State and Federal Laws or Regulations

Ms. Doran noted that this policy, originally known as the "whistleblower" policy, was required by state legislation. The amended policy reflected changes made to state legislation. The first change expanded the definition of a report to include "oral" as well as written. The second change increased the number of days to file a report to 180 from 60.

Chairman Smith called for a motion to recommend full Board approval to update the BTRU 1.22 Reporting Violations of State and Federal Laws or Regulations policy as presented by Ms. Doran and described in the materials posted on the Board Portal. Mr. Whittle so moved and Mr. Mobley seconded the motion. The vote was taken and the motion carried.

E. BTRU 1.24 Internal Control Policy

Ms. Doran stated the revision to the policy was to incorporate risk management into the objectives of the systems of internal controls.

Chairman Smith called for a motion to recommend full Board approval to update the BTRU 1.24 Internal Control Policy as presented by Ms. Doran and described in the materials posted on the Board Portal. Mr. von Lehe so moved and Mr. Whittle seconded the motion. The vote was taken and the motion carried.

VI. Audit and Compliance Committee Reviews

A. Committee Charter

Ms. Doran noted that upon her annual review of the committee charter she proposed no changes. Discussion ensued as to whether the charter was ever adopted by the full Board. (Point of information – as noted in the minutes, the current Audit and Compliance Committee Charter was approved by the committee on March 18, 2011; and by the full Board on April 15, 2011.)

B. Committee Matrix

Ms. Doran informed the committee that an updated Committee Matrix had been provided on the Board Portal.

Chairman Smith stated there was a need to receive legal advice that was appropriate for discussion in Executive Session. He called for a motion to enter Executive Session. Mr. Warr so moved and Mr. von Lehe seconded the motion. The vote was taken and the motion passed.

Chairman Smith invited Trustees, President Pastides, Secretary Stone, Mr. Parham, Mr. Walton, Ms. Brunelli, Ms. Doran, Mr. Murray, Ms. Lunsford, Mr. Hickman, and Mr. Heath to remain.

Return to Open Session

VII. Other Matters

Chairman Smith called for any other matters to come before the committee. Mr. Warr noted that the tour of the newly acquired property behind Gamecock Park scheduled to follow the meeting adjournment, was postponed due to the late hour and declining weather.

VIII. Adjournment

Since there were no other matters to come before the committee, Chairman Smith called for the meeting to adjourn at 3:37 p.m.

Respectfully submitted,

Amy E. Stone  
Secretary