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University of South Carolina
BOARD OF TRUSTEES

Audit and Compliance Committee

March 16, 2018

The Audit and Compliance Committee of the University of South Carolina Board of Trustees met at 11:00 a.m. on Friday, March 16, 2018, in the Alumni Center's C. Edward Floyd Boardroom.

Members present were: Dr. C. Dorn Smith III, Chairman; Mr. Chuck Allen; Mr. J. Egerton Burroughs; Mr. Thomas C. Cofield; Ms. Rose Buyck Newton; Mr. Mack I. Whittle Jr.; Mr. Charles H. Williams; and Mr. John C. von Lehe Jr., Board Chairman. Mr. Tommy Preston Jr. was absent.

Other Board members present were: Mr. A. C. "Bubba" Fennell III; Mr. William C. Hubbard; Mr. Toney J. Lister; Mr. Miles Loadholt; Mr. Hubert F. Mobley, Board Vice Chairman; Ms. Leah B. Moody; Ms. Molly M. Spearman; Mr. Eugene P. Warr Jr.; and Mr. Thad H. Westbrook.

Also present were: USC Columbia Faculty Senate Chairman Marco Valtorta and Student Government President Ross Lordo.

Others present were: President Harris Pastides; Secretary J. Cantey Heath Jr.; General Counsel Walter "Terry" H. Parham; Chief Operating Officer Edward L. Walton; Chief Financial Officer Leslie Brunelli; Vice President for Student Affairs Dennis A. Pruitt; Vice President for Research Prakash Nagarkatti; Vice President for Development Jancy Houck; Vice President for Human Resources Chris Byrd; Vice President for Information Technology Doug Foster; Vice President for System Planning Mary Anne Fitzpatrick; USC Advancement Team Leader Paula Harper Bethea; Vice Provost and Dean of the Graduate School Cheryl Addy; Vice Provost and Dean of Undergraduate Studies Sandra J. Kelly; Chief Communications Officer Wes Hickman; Chief Audit Executive Pam Doran; University Treasurer Pat Lardner; University Controller Mandy Kibler; Athletics Director Ray Tanner; USC Aiken Chancellor Sandra Jordan; USC Beaufort Chancellor Al Panu; Palmetto College Chancellor Susan Elkins; USC Upstate Chancellor Brendan Kelly; USC Lancaster Dean Walter Collins; USC Salkehatchie Dean Ann C. Carmichael; USC Sumter Dean Michael E. Sonntag; Associate Vice President for Business Affairs Helen T. Zeigler; Associate Vice President of Student Life Anna Edwards; Associate Vice President for Administration and Finance and Medical Business Affairs Jeffrey L. Perkins III; Executive Director for the Office of Economic Engagement William D. "Bill" Kirkland; College of Engineering and Computing

Dean Hossein Haj-Hariri; Associate Vice President, Chief Information Security Officer and Relationship Manager, Division of Information Technology, James Perry; Chief Financial Officer, Athletics Department, Jeff Tallant; Director of Audit & Advisory Services Glenn Murray; Director of the Office of Research and Compliance Thomas Coggins; Director of Facilities Planning and Programming and University Architect Derek S. Gruner; Director of Purchasing Venis Manigo; Director of the University's Office of Equal Opportunity Programs Cliff Scott; Director of State Government Relations Derrick Meggie; Director of Financial Reporting, Controller's Office, Sandy Smith; Assistant Director of IT Audit, Audit & Advisory Services, Roscoe Patterson; USC Aiken Executive Vice Chancellor for Academic Affairs Jeff Priest; USC Aiken Vice Chancellor for Finance and Administration Cam Reagin; USC Columbia Student Government President-Elect Taylor Wright; USC Lancaster Director of Student Engagement and Success Laura Carnes and student Molly Melton; USC Palmetto College Fort Jackson Director Connie Wise; USC Palmetto College Fort Jackson student Drill Sergeant Tarevea Basket; USC Palmetto College online student Christopher Floyd; USC Salkehatchie student Paris Dubois; USC Sumter Senior Instructor of Biology Daniel Kiernan and student Elizabeth Orban; USC Union Registrar Blake Wilson and student Mary Scarborough; Brian D'Amico with Elliott Davis; University Technology Services Production Manager Matt Warthen; and 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 all at the table to introduce themselves. He stated the agenda had been posted and the press 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. Mr. Hickman said no members of the media were present.

Motion for Executive Session

Chairman Smith called for a motion to enter Executive Session for proposed contractual matters related to the University's use of external auditors and the Inn at USC, as well as a personnel matter related to a policy violation. Mr. Cofield so moved and Mr. Burroughs seconded the motion. The vote was taken and the motion carried.

Chairman Smith invited the following persons to remain: Dr. Pastides, Secretary Heath, the Faculty Representative and Student Representative to the Board, Members of the President's Executive Council and Ms. Doran.

Executive Session

Return to Open Session

Chairman Smith announced due to the late hour, he was amending the agenda order to allow Ms. Doran to present her items of business first, since she had a plane to catch. Following her presentation, he said the committee would break for lunch with the Student-Trustee Liaison Committee panel before returning to Open Session for its remaining agenda items.

I. Internal Audits/Reviews

A. IT System Access Management

Ms. Doran said the University has multiple layers of access security for confidential and restricted data. The first layer is the Active Directory, which allows general access to the University’s network and email system. A separate audit will be conducted on this first layer.

This audit, Ms. Doran said, focused on “beyond the first layer,” whereby access must be authorized by business unit management or assigned data stewards. This is important, she said, when employees’ roles change within the University or when the first layer deactivation is not timely or accurate. The critical IT systems reviewed included:

<u>Responsible Unit</u>	<u>System</u>	<u>Data</u>
Student Affairs and Academic Support	Banner	Student
Division of Administration and Finance	PeopleSoft	Finance
Division of Human Resources	PeopleAdmin	Employee and Applicant
University Research	USCeRA	Research
Division of Development	Millenium	Development

As a result of the audit, Ms. Doran reported efforts were underway to address recommendations for improvement in the following four areas:

- Clarification of access management policies and responsibilities
- Access reviews for critical systems
- Notification from departments to data stewards when employees change responsibilities
- University identity and access management program – guidance, training and monitoring.

B. School of Law Construction Final Report

Ms. Doran said the audit focused on three areas for the \$80 million School of Law construction project for the period October 1, 2017 through January 31, 2018. Those areas included: review of contractor payment applications and construction manager fees for consistency with the terms and conditions of the contracts with the architect, construction manager at risk, and the construction

manager agent; review of change orders for reasonableness and appropriate approvals; and validation that stipulated insurance coverage existed.

Ms. Doran reported the project, which is expected to come in under budget, was complete and no issues were identified during the course of the audit process. Although there are outstanding expenses estimated at \$235,000 that are related to landscaping change orders, she does not anticipate additional progress reports.

C. Review of Calendar Year 2017 President's Office and Board Office Expenditures

Ms. Doran said although AAS will continue to conduct reviews quarterly, it will now only report to the committee annually. In calendar year 2017, AAS found no reportable issues in the expenditure summaries.

D. Purchasing Card Reviews

Ms. Doran said AAS developed a program to monitor Purchasing Card (pcard) activity, and noted the program is not intended to replace monitoring of pcard activity by units or the Purchasing Department, but to supplement the monitoring those groups provide. She reported that during the 13-month period July 1, 2016 – July 31, 2017, the University pcard program had more than 99,000 transactions totaling \$30.5 million.

Ms. Doran explained the University had a contract with Bank of America, to provide all the transaction data. AAS analyzes and runs queries against this data to look for “red flags” that may indicate a transaction was for personal use, or non-compliant with University policy or state regulations. Based on the review of approximately 1,700 transactions, AAS determined there were no instances of fraudulent use, but there were numerous transactions in violation of University policy, as well as transactions where another purchasing method would have been more appropriate.

In the course of the review, AAS determined some cardholders were not submitting transaction support (receipts), but upon request were able to do so; some purchases were personal consumption items (e.g. candy, drinks, paper products) that are unallowable; and some items purchased on the pcard were available under state contract (e.g. office supplies, computers, cell phones).

Ms. Doran said AAS, in conjunction with the Purchasing Department, has been providing tools and training; and when patterns of misuse are identified the Purchasing Department suspends and/or revokes pcards. Efforts since the review created a vast improvement in pcard compliance, she noted.

Ms. Doran said the University is transitioning from the Bank of America system to the My Wallet PeopleSoft module, which will provide the same level of detail. In conjunction with the transition, the

Purchasing Department is updating its Policies and Procedures Manual and will continue to provide pcard monitoring and training.

E. Tracking Report

Ms. Doran provided a Tracking Report indicating that at the October committee meeting there were 27 outstanding recommendations. Of the 27 recommendations, 9 had been implemented, 5 were not yet due, and 13 were extended. She reported great progress toward addressing the following outstanding recommendations: (3) IT Disaster Recovery; (2) Title IX Policy and Training; (4) Contract Approval Process; and (2) Human Resources – Hiring Background and Reference Checks. She said details of the deferred recommendations were provided in the report.

Ms. Doran said efforts would take longer to address outstanding recommendations in the Capital Maintenance and Renewal Audit related to the transition phase from construction management to operations and maintenance; and in the Banner Student Information System Post-Implementation Review Audit related to the Banner Data Dictionary.

Chairman Smith said these reports were received as information.

II. Conflicts of Interest and Commitment System Update

Ms. Doran said the system to address University staff went live February 7, 2018. The first effort targeted staff with supervisory responsibilities or payment approval authority. Of the 1,660 staff members identified, 1,187 had already disclosed and have no potential conflicts, 118 disclosures were pending an evaluation to see if a conflict of interest management plan is needed. Implementation of the system has created a raised awareness of conflicts of interest and the need to manage particular circumstances and appearances, as well as facilitating discussion between supervisors and employees in terms of consulting and speaking engagements, Ms. Doran said.

Chairman Smith said this report was received as information.

III. Audit and Advisory Services Quality Assurance Review

Ms. Doran said she developed a Quality Assurance Review notebook for the committee and other Trustees, as a guide when questioned by the external assessment team in the course of auditing the University's Audit and Advisory Services functions. The external audit team is scheduled to be on campus the first week of June. Team members include: University of Auburn Associate Vice President for Audit, Compliance & Privacy Kevin Robinson; University of Tennessee System Chief Audit and Compliance Officer Sandy Jansen; University of North Carolina System Vice President for Compliance and Audit Services S. Lynne Sanders; and Virginia Tech Associate Director of Internal Audit Brian Daniels. In

addition to Trustees, the team will interview President Pastides and other University executive management. Ms. Doran said the team will issue a report that she will share with the Board.

Trustee von Lehe asked if this was the first time an external audit was conducted on the University Audit and Advisory Services, and Ms. Doran responded yes. She noted that according to The Institute of Internal Auditor's *International Standards for the Professional Practice of Internal Auditing (Standards)*, an external review should be conducted every five years. Chairman Smith noted the anticipated review cost, mostly travel expenses, was \$10,000.

IV. Audit and Compliance Committee Reviews

A. Board of Trustees Policies Annual Review

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

Based on her review, Ms. Doran proposed minor changes to the policy to update her title and to use University Secretary, without a name, so that personnel changes would not cause policy corrections. No action was required.

2. BTRU 1.14 University Designated Funds Policy

Ms. Doran recommended changing reporting of the Review of the President's Office and Board Office Expenditures from quarterly to annually. Also, she said the title and name changes would apply as stated in BTRU 1.22.

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. Burroughs so moved and Mrs. Newton seconded the motion. The vote was taken and the motion carried.

B. Committee Charter Annual Review

Based on her review, Ms. Doran proposed no changes to the Committee Charter.

C. Committee Self-Assessment Results

Ms. Doran said at the last meeting, the committee completed a questionnaire on six areas related to their responsibilities and rated itself highly. The results were provided on the Board Portal.

D. Committee Matrix

Ms. Doran reported the Committee Matrix showed the committee had completed everything planned for this meeting. A copy of the Matrix was provided on the Board Portal.

At this point in the meeting, Chairman Smith declared a 45-minute recess for lunch.

Recess for Lunch

Return to Open Session

At 1:45 p.m., Chairman Smith declared a Return to Open Session.

V. Elliott Davis Agreement, Budget Comparison Project Extension

Chairman Smith called for a motion to approve an extension of the agreement with Elliott Davis to continue its University Budget Comparison Project, at a cost not to exceed \$128,250. Consulting services performed will include an analysis of the University's new budget model as developed and implemented by Huron Consulting Group; as well as an analysis of each Columbia academic unit by program/degree as determined by the new budget model for the year ended June 30, 2017; an analysis of each Columbia auxiliary unit as determined by the new budget model for the year ended June 30, 2017; and an analysis of the costs of the Columbia administrative units for the years ended June 30, 2017 and 2016. Trustee Burroughs so moved and Trustee Newton seconded the motion. The vote was taken and the motion carried.

VI. FY 2018 Designated Funds Budget Revision

Chairman Smith called on Ms. Brunelli, who explained the \$50,000 budget increase is a result of the University's new food service vendor and opening of the 1892 Grid Iron Club. The increase is split, with \$35,000 for University Development & Functions to cover the cost of additional invitees to the Club and the new food packages; and \$15,000 for Administration and Finance to cover non-food related expenditures for pregame and tailgate events.

Chairman Smith called for a motion to revise the FY 2018 Designated Funds Budget by increasing it \$50,000 for a new total of \$4,031,900. Trustee Allen so moved and Trustee Cofield seconded. The vote was take and the motion carried.

VII. External Audits

Chairman Smith called on Mr. D'Amico from Elliott Davis (ED) to present the audits.

A. USC System Uniform Guidance Audit, FY 2017

B. USC Columbia and Regionals, FY 2017

Mr. D'Amico said these audits are to determine if the University is materially in compliance with requirements associated with federal programs and is used by federal granting agencies.

He reported that there were no significant findings in financial statements; but one material weakness and one significant deficiency was revealed in the audits.

The material weakness was related to the Perkins Loans whereby loans were converted to prepayment later than required; however, there was no impact on the total repayment cost, Mr. D'Amico noted. ED recommended procedures be implemented to review student data reported to Educational Computer Systems, Inc. (ECSI) and the National Student Loan Data System (NSLDS) to ensure accuracy, consistency and completeness. Also, he said, ED recommended a review of compliance requirements established by NSLDS and the Department of Education.

The significant deficiency was noted on the USC Beaufort and USC Upstate's FY 2016 Fiscal Operations Report and Application to Participate (FISAP) reports. Amounts reported to FISAP were misstated and could impact future funding. ED recommended creating procedures to ensure FISAP information is supported by proper documentation and is reviewed to ensure accuracy.

Mr. D'Amico noted findings in last year's Financial Statements were cleared.

- C. USC Aiken, FY 2017
- D. USC Beaufort, FY 2017
- E. USC Upstate, FY 2017

The Southern Association of Colleges and Schools Commission on Colleges (SACSSOC), requires separate audits of all four-year campuses. Mr. D'Amico reported that ED issued an unmodified opinion on those financial statements.

- F. USC Columbia Department of Athletics Agreed-Upon Procedures, FY 2017
- G. USC Upstate Department of Athletics Agreed-Upon Procedures, FY 2017

The NCAA Bylaws require certain financial procedures be performed related to the Athletics Department. Mr. D'Amico reported ED took the University's financial statements as prepared according to Generally Accepted Accounting Principles (GAAP), and converted them into the Agreed-Upon Procedures (AUP) format, which is more specific. Mr. D'Amico reported the audits revealed no findings. However, the audit revealed that a Columbia campus coach had not received his full supplement compensation based on his employment agreement. Once the department was notified of the error, they immediately corrected it.

Mr. D'Amico said, from a compliance standpoint, all was well; however, differences between the University's Banner system and the NCAA compliance assistance software created reporting inconsistencies. The Banner system reports actuals per student, whereas the NCAA works off averages.

H. Darla Moore School of Business Professional MBA Program, FY 2017

Mr. D'Amico said the State of North Carolina requires any higher education institution doing business in North Carolina to provide evidence of a guaranty tuition bond equivalent to the amount of tuition paid by the State's residents. This requirement is necessary for the Moore School Professional Master of Business Administration Program. ED affirmed that the bond was sufficient.

Chairman Smith thanked Mr. D'Amico and said the reports were received as information.

VIII. Other Matters and Adjournment

Chairman Smith called for any other matters to come before the committee. There being none he declared the meeting adjourned at 2:05 p.m.

Respectfully submitted,

J. Cantey Heath, Jr.
Secretary