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University of South Carolina
BOARD OF TRUSTEES

Audit and Compliance Committee

March 15, 2019

The Audit and Compliance Committee of the University of South Carolina Board of Trustees met at 2:00 p.m. on Friday, March 15, 2019, in the Alumni Center's C. Edward Floyd Boardroom.

Members present were: Ms. Rose Buyck Newton, Chairman; Mr. J. Egerton Burroughs; Dr. C. Dorn Smith III; Mr. Thad H. Westbrook; Mr. Mack I. Whittle Jr.; Mr. John C. von Lehe Jr., Board Chairman; and Mr. Hubert F. Mobley, Board Vice Chairman; with Mr. Robert F. Dozier Jr. and Mr. Charles H. Williams joining by telephone. Mr. Chuck Allen was absent.

Other Board members present were: Mr. C. Dan Adams; Dr. C. Edward Floyd; Mr. William C. Hubbard; Mr. Richard A. Jones Jr.; Mr. Toney J. Lister; Mr. Miles Loadholt; Ms. Leah B. Moody; Ms. Molly M. Spearman; and Mr. Eugene P. Warr Jr.; with Mr. A.C. "Bubba" Fennell III joining by telephone.

Also present were USC Columbia Faculty Senate Chairman Marco Valtorta and USC Columbia Student Government President Taylor Wright.

Others present were: President Harris Pastides; Secretary J. Cantey Heath Jr.; General Counsel Walter "Terry" H. Parham; Provost Joan Gabel; Chief Operating Officer Edward L. Walton; Vice President for Student Affairs Dennis A. Pruitt; Vice President for Information Technology Doug Foster; Vice President for Research Prakash Nagarkatti; Vice President for Human Resources Caroline Agardy; Chief Communications Officer Wes Hickman; USC Aiken Chancellor Sandra Jordan; USC Beaufort Chancellor Al Panu; Palmetto College Chancellor Susan Elkins; USC Upstate Chancellor Brendan Kelly; Chief Audit Executive Pam Doran; University Controller Mandy Kibler; University Treasurer Pat Lardner; Athletics Director Ray Tanner; 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; Director of Audit & Advisory Services Glenn Murray; Assistant Director of IT Audit, Audit & Advisory Services, Roscoe Patterson; IT Audit Manager, Audit & Advisory Services, Jan Bennett; Audit Manager, Audit & Advisory Services, Kim Dwiggin; University Budget Director Joe Sobieralski; Chief Financial Officer, Athletics Department, Jeff Tallant; Senior Associate Athletics Director for Administration Chris Rogers; Director of Information Technology, Athletics Department, Randy

Rollings; Chief Diversity Officer and Senior Associate Provost for Inclusion, Office of Diversity and Inclusion, John H. Dozier; Office of Research Compliance Director Thomas Coggins; Director of State Government and Community Relations Derrick Meggie; Director of Public Relations Jeff Stensland; Executive Director for Strategic Initiatives Jack Claypoole; Assistant to the President for System Affairs Eddie King; USC Beaufort Vice Chancellor for Finance and Operations Earle Holley; Cynthia Lister, wife of Trustee Toney Lister; Ann Loadholt, wife of Trustee Miles Loadholt; 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

Chair Newton called the meeting to order, welcomed those in attendance and asked all at the table to introduce themselves. Secretary Heath confirmed Trustee participation by telephone. Ms. Newton 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 introduced Hannah Dear with *The Daily Gamecock*.

II. Policy Reviews

A. BTRU 1.14 University Designated Funds

Chair Newton called on Ms. Doran who said based on her review, she recommended no changes to BTRU 1.14 University Designated Funds.

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

Based on her review, Ms. Doran proposed two changes to the policy. The first change strengthens the policy language to make it consistent with the BTRU 1.20 Dishonest Acts and Fraud policy. The second change updates the members of the ad hoc resolution committee to include only the Chair of the Audit and Compliance Committee of the Board of Trustees, the University General Counsel, and the Chief Audit Executive.

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

C. New Policy - UNIV 8.00 University Aircraft; Use and Scheduling Policy

Chair Newton called on Mr. Walton who said the purpose of the policy is to ensure compliance with all federal, state, local, and foreign regulations, as well as University policies and procedures relating to use of the University aircraft. Mr. Walton said the new policy codifies the current guidelines for use of the plane for University business.

Mr. Walton said the only new requirement is that requestors will need to complete the USC Flight Request Form and have it approved by their supervisor to determine if the University aircraft is the best form of transportation, giving due consideration to the cost-effectiveness of utilizing University aircraft rather than alternative forms of transportation.

Chair Newton said no action was required since it was not a Board policy; therefore, this report was received as information.

III. External Audits

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

A. Reports Required by Government Auditing Standards and the Uniform Guidance, FY 2018

Mr. D'Amico said this document contains two reports. The first is required under Government Auditing Standards and is based on tests of the University's internal controls over financial reporting and compliance with laws and regulation. He reported no material weaknesses were found during the course of the audit. However, three significant deficiencies were revealed affecting different areas of the University's financial operations and were all related to the PeopleSoft implementation. He noted it was not unusual for reportable deficiencies to be revealed as a result of a major software change.

The second report is required by the Single Audit Act and is based on tests of the University's internal controls and compliance over federal award expenditures. These audits determine if the University is materially in compliance with requirements associated with federal programs and is used by federal granting agencies. Two of the University's federal programs, the Student Financial Assistance Cluster and the Trio Cluster, were classified as major programs and ED issued an unmodified opinion on both. During the single audit testing, ED identified one material weakness that was similar to the finding noted in the prior year related to incorrect separation dates reported to the University's Third Party Administrators over the Federal Perkins Loan Program. In addition, he noted seven significant deficiencies, all of which were matters of noncompliance with specific criteria established by the grantor.

Mr. D'Amico reported the University's Comprehensive Annual Financial Report (CAFR) had been submitted and the University fully expects to receive a certificate of excellence in financial reporting which it has received the last several years.

B. USC Columbia and Regionals, FY 2018

C. USC Aiken, FY 2018

D. USC Beaufort, FY 2018

E. USC Upstate, FY 2018

Mr. D'Amico reported ED issued an unmodified opinion on these four financial statements.

F. USC Columbia Department of Athletics Agreed-Upon Procedures, FY 2018

G. USC Upstate Department of Athletics Agreed-Upon Procedures, FY 2018

The NCAA Bylaws require certain financial procedures be performed related to the Athletics Department. Mr. D'Amico reported the agreed-upon-procedures revealed no findings for either department.

H. Darla Moore School of Business Professional MBA Program, FY 2018

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 the highest month's pre-paid tuition for classes taught in North Carolina. This requirement is necessary for the Moore School Professional Master of Business Administration Program. ED affirmed that the bond was sufficient.

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

IV. Internal Audits/Reviews

Chair Newton called on Ms. Doran to present.

A. Athletics Department IT Operations Audit Report

Mr. Murray said the Athletics Department IT operations provides everyday services to more than 300 employees, as well as game day technical support. The general controls that help provide a stable IT operating environment include: data recovery and business continuity; Payment Card Industry (PCI) compliance; change management; and access management. He noted the staff was relatively new, due to termination of the department's IT director for cause, two years ago.

As a result of the audit, Mr. Murray reported efforts were underway to address three recommendations for improvement. First, Athletics should develop and adopt a formal Disaster Recovery and Business Continuity Plan to ensure operations are recovered within an estimated timeframe to minimize the potential loss of data and productivity. Second, Audit and Advisory Services (AAS) recommended Athletics IT work with Aramark to obtain an Attestation of Payment Card Industry Data Security Standards (PCI DSS) compliance, supporting the Aramark-managed concession sales infrastructure.

Mr. Murray said the third recommendation resulted from after-hours walkthroughs of the Rice Athletics Center and the Colonial Life Arena business operations areas which revealed user access credentials and personally identifiable information unsecured. AAS recommended Athletics management revisit with department staff the importance of adhering to University policies UNIV 1.51 Data Information Governance, and UNIV 1.52 Responsible Use of Data, Technology, and User Credentials. AAS determined the physical access points were behind card and key-controlled doors, however, non-university staff (i.e. contract cleaning services) have after-hours access. Mr. Murray reported Athletics had begun increasing training and communication, especially for part-time employees and interns to prevent future occurrences.

Mr. Murray reported recommendations for improvement regarding Athletics Data Management had been addressed. AAS verified the asset inventory and verified classifications and protections have been documented.

In February 2019, to address the change management recommendations, Athletics IT adopted a formal written policy related to the change management process in order to ensure appropriate planning and execution of changes.

Also, AAS recommended Athletics management obtain a current Agreement for Medical Services (AMS) to reflect the merger with Prisma Health. Athletics management is working on the AMS, to include clarity on HIPAA compliance responsibilities where applicable. Completion of the formal AMS executed by appropriate University authorities and Prisma Health is anticipated by June 2019.

B. Export Control Audit Report

Mr. Murray explained export controls regulate, through the U. S. Departments of Commerce, State and Treasury, the release of critical technologies, information and services for reasons of policy and national security. The University is impacted by export control laws primarily through research projects. The Office of Sponsored Awards Management (SAM) assists Principal Investigators (PIs) in identifying research activities subject to export control laws and provides guidance for complying with

those laws. SAM personnel review and negotiate grants, contracts, and other agreements from funding agencies, and provide PIs with training and guidance for completing Technology Control Plans (TCP) to comply with export control laws.

Mr. Murray reported AAS provided three recommendations for improvement related to project administration and training. First, while SAM leadership updated the TCP form during the audit engagement to provide additional guidance to PIs, the Director of SAM needs to ensure there is regular communication between SAM and PIs to verify any modifications to the TCP or project are properly controlled and documented.

AAS's second recommendation is for the Director of SAM to establish a formal training program for PIs to provide ongoing guidance on complying with export control regulations. Training also should be developed for additional areas of the University that could potentially be impacted by these regulations, Mr. Murray said.

AAS's third recommendation was for management to perform an assessment of the level of controlled projects and the risk associated with these projects to determine if resources dedicated solely to export control compliance are needed. And, if not currently needed, an assessment be performed at periodic intervals to ensure the risks associated with export control compliance are being appropriately addressed. Mr. Murray noted at the time of the audit there were 7-8 researchers with 14 active projects.

C. Institutional Data Reporting Audit Report

The Office of Institutional Research, Assessment, and Analytics (OIRAA) has broad responsibility for compliance reporting to federal, state, internal and external entities' and it also supports formal accreditation activities. OIRAA processes provide reasonable assurance that data is reported completely and accurately.

Mr. Murray reported that AAS determined OIRAA was properly managing compliance reporting and supporting formal accreditation activities within the audit scope. He added the OIRAA employees have acknowledged an understanding of their responsibilities for confidentiality and responsible use of University data. The OIRAA, having made numerous improvements in the past two years and operating proactively, has resulted in no recommendations for improvement from the audit, Mr. Murray said.

D. PeopleSoft Human Capital Management (HCM) Pre-implementation Review – Report II

The PeopleSoft (HCM) Human Capital Management module Phase I (human resources, payroll, benefits, and related self-service functions) is scheduled to go-live on April 1, 2019.

Ms. Doran provided a status of three recommendations noted in Report I, at the committee's meeting on October 19, 2018. The two recommendations noting the need for communication of the project to all stakeholders, and the need to develop an end-user training plan and schedule have been completed. The recommendation to address a lack of progress on many payroll critical end-user reports had not yet been addressed.

Ms. Doran said the Report II audit scope included: existence of a contingency plan; administrator and user access roles; user acceptance testing documentation; data conversion plan from the legacy system and testing; and maintenance of an issues log. AAS determined there were no new reportable observations in Report II. She said processes for converting data and conducting user acceptance testing are currently underway; therefore, functional users have not formally accepted the results of testing.

E. Programs Involving Minors Audit Report

Ms. Doran said in 2018 there were 79 programs on the Columbia Campus, not including athletic coaches camps, involving approximately 1,600 minors. The scope of the audit included evaluating University Policy 4.00 Programs Involving Minors and the Recommended Guidelines for Designing and Operating Programs Involving Minors for program clarity and conciseness, as well as determining if program staff members were aware of and had been trained on this guidance. Also, a sample of University-sponsored activities was reviewed to determine if the program staff developed and managed activities to ensure appropriate supervision and protection of minors, including: verifying background checks were completed for program staff prior to the start of a program; determining if appropriate rules and regulations had been established when overnight accommodations are part of the program; and determining if appropriate rules and regulations had been established in the event of an emergency, including notification of parents/guardians.

As a result of the audit, AAS made two recommendations for improvement. The first, identified a need for management to determine the appropriate office to provide oversight and monitoring for programs involving minors. Ms. Doran reported a position to do so is being added to Office of General Counsel (where NCAA, EOP and HIPAA compliance already reside). This position will assist colleges, schools and departments in establishing appropriate procedures and will monitor compliance with policy requirements.

Ms. Doran reported that in response to the second recommendation, the Program Involving Minors Committee reconvened to review, modify and strengthen the UNIV 4.00 policy and guidelines. The revised policy will include necessary requirements noted in the audit: performance of background

checks for program staff; supervision requirements for overnight accommodations; training for all program staff; and security of personal information on minors. Ms. Doran noted the committee's first meeting is scheduled for mid-March 2019.

Chair Newton commended management for its quick response to add a compliance officer position. President Pastides commended Ms. Doran for her collaborative efforts with management to address the compliance needs.

F. Review of Calendar Year 2018 President's Office and Board Office Expenses

Ms. Doran said although AAS conducts quarterly reviews, reporting to the committee is done annually. For calendar year 2018, AAS found no reportable issues in the expenditure summaries.

G. Tracking Report

Ms. Doran said the Tracking Report summary table showed there were 29 outstanding recommendations when the committee met on October 19, 2018, and that 11 of those recommendations were implemented. Of the remaining 18 findings: 10 had extended completion dates; six were not yet due; and two related to the Contract Approval Process audit were pending follow-up.

Ms. Doran discussed findings in three audits that have been outstanding for more than two years; noting significant progress had been made to address the Banner Student Information System Post-Implementation Review finding related to development of the Banner Data Dictionary. The Emergency Planning Audit finding related to Law Enforcement IT Disaster Recovery is close to being implemented, having received South Carolina Law Enforcement Division (SLED) approval of a two-way encryption process. As to the Contract Approval Process findings related to an unauthorized contract and purchase of a contract database, Ms. Doran said the unauthorized contract was close to being approved and a contract database had been identified and is expected to be in place by the end of May 2019.

Ms. Doran said 17 new recommendations for improvement resulted from those audits presented in this meeting. Details of the deferred recommendations were provided in the report.

Chair Newton thanked Ms. Doran and said the reports were received as information.

V. Audit and Compliance Committee

A. Education – University's New Budget Model

Chair Newton called on Mr. Walton who began with a legislative update on the FY 2020 budget development, including the good news that the South Carolina House of Representatives was finally entertaining discussion of funding for higher education. The University's proposed FY 2020 budget

has yet to be considered by the Senate. Mr. Walton noted when the State funds higher education, tuition can be lower; when it does not, tuition is higher.

President Pastides discussed the effect unfunded mandates, such as the proposed 2% pay plan and the 1% retirement increase, can have on the University's budget. He had asked Mr. Walton and his staff to calculate the tuition increase needed, if the University only receives funding to offset typical budget increases and not fund the new mandates: the estimated tuition increase he reported would be 1½ to 2%. President Pastides said the media will report the University as the "bad guys" if it receives new money, but increases tuition to cover the cost of the mandates.

Mr. Walton said the General Assembly appropriation of \$5 million last year and \$15 million this year for the relocation of the USC School of Medicine (SOM) was the State's affirmation that the SOM needs to move.

Mr. Walton provided an overview of the budget model redesign; noting the new model is transformational, in that its intent is to change the way the University does business. It will focus on all funds and will increase transparency. The new model was designed to create incentives for growth, entrepreneurial activity and cost control; and to offer a better picture of "true" costs of operations and unit margins. However, Mr. Walton pointed out, the new budget model will not create new funds; cure all; act as a decision maker; or be delivered "turnkey." To successfully implement the new budget model, extensive training is being provided, noting the transition goes beyond providing new spreadsheets. Also, he said since the FY 2020 budget will be presented in the current and in the new model to reflect the changes between the two methods, Trustees will notice a significant difference from prior years in their budget notebooks.

Chair Newton said Mr. Walton's presentation was received as information.

B. Committee Charter Annual Review

Chair Newton said, based on her review Ms. Doran proposed no changes to the Committee Charter.

C. Committee Matrix

Chair Newton stated the Matrix, received as information, shows the committee items for this meeting have been completed.

D. Committee Self-Assessment Results

Chair Newton said at the last meeting the committee completed a questionnaire on six areas related to their responsibilities and rated itself highly. Requests for more educational components

were received. The results were provided on the Board Portal.

Motion to Enter Executive Session

Chair Newton called for a motion to enter Executive Session for a personal matter related to an ongoing audit and the Chief Audit Executive's Conflict of Interest Disclosure. Mr. Whittle so moved and Mr. Westbrook seconded the motion. The vote was taken and the motion carried.

Chair Newton invited the following persons to remain: Trustees, President Pastides, Secretary Heath, Mr. Parham, Mr. Walton, Ms. Doran, Ms. Kibler and Ms. Dwiggin.

Executive Session

Return to Open Session

VI. Other Matters

Chair Newton called for any other matters to come before the committee.

VII. Adjournment

Chair Newton declared the meeting adjourned at 3:30 p.m.

Respectfully submitted,

J. Cantey Heath, Jr.
Secretary