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University of South Carolina

BOARD OF TRUSTEES

Audit and Compliance Committee

June 10, 2016

The Audit and Compliance Committee of the University of South Carolina met at 1:20 p.m. on Friday, June 10, 2016, in the Alumni Center Boardroom.

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

Other Board members present were: Mr. Chuck Allen; Mr. Mark W. Buyck Jr.; Mr. Thomas C. Cofield; Mr. A. C. "Bubba" Fennell III; Dr. C. Edward Floyd; and Ms. Leah B. Moody.

Also present was the Chairman of the Faculty Senate August E. "Augie" Grant.

Others present were: President Harris Pastides; Secretary Amy E. Stone; General Counsel Walter "Terry" H. Parham; Provost Joan T. A. Gabel; Chief Operating Officer Edward L. Walton; Chief Financial Officer Leslie Brunelli; Vice President for Student Affairs Dennis A. Pruitt; Vice President for Human Resources Chris Byrd; Vice President for Information Technology William F. Hogue; Vice President for System Planning Dean Mary Anne Fitzpatrick; Chief Communications Officer Wes Hickman; Executive Director of Audit & Advisory Services Pam Doran; Palmetto College Chancellor Susan Elkins; Athletics Director Ray Tanner; Executive Director for the Office of Economic Engagement William D. "Bill" Kirkland; Executive Director of My Carolina Alumni Association Jack W. Claypoole; University Controller Jennifer Muir; University Treasurer Pat Lardner; Chief Diversity Officer John H. Dozier; Executive Assistant to the President for Equal Opportunity Programs Bobby D. Gist; Assistant Director of the Office of Equal Opportunity Programs/Deputy Title IX Coordinator Carl R. Wells; My Carolina Alumni Association Senior Director of Operations Kevin Grindstaff; Director of Governmental and Community Relations and Legislative Liaison Shirley D. Mills; Chief of Staff, President's Office, J. Cantey Heath Jr.; USC Aiken Executive Vice Chancellor for Academic Affairs Jeff Priest; USC Aiken Vice Chancellor for Finance and Administration Joe Sobieralski; USC Beaufort Interim Executive Vice Chancellor of Academic

Affairs Gordon Haist; Audit & Advisory Services Assistant Director Glenn Murray; Senior Associate Dean for Arts, Humanities, and Social Sciences Anne Bezuidenhout; University Technology Services Production Manager Matt Warthen; and Board staff members Debra Allen, Terri Saxon and Ina Wilson.

I. Call to Order

Presiding Chairman Mobley called the meeting to order, welcomed those in attendance and asked them to introduce themselves. No members of the media were present.

Presiding Chairman Mobley 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.

II. Designated Funds FY 2016-17 Budget

Presiding Chairman Mobley called on Ms. Brunelli, who reported the FY 2016-17 Designated Funds Budget was \$3,931,900; identical to the prior three years. The budget is allocated from auxiliary enterprise revenues budgeted for University scholarships and “R” funds, which are Board of Trustees’ controlled funds.

Ms. Brunelli explained that this was the first time all commencement expenses were consolidated. Previously, expenses were split among several department budgets. She noted that following the end of FY 2015-16, the commencement budget would be re-aligned to reflect the reduction of the August commencement exercises. Ms. Brunelli said that she will report on the re-alignment at the October 2016 committee meeting.

Presiding Chairman Mobley called for a motion to recommend the FY 2016-17 Designated Funds Budget to the Executive Committee for inclusion in the University’s FY 2016-17 Budget. Mr. Burroughs so moved. Mr. von Lehe seconded the motion. Mr. Cofield, not a committee member, voiced objection prior to the vote being taken. The motion was passed unanimously by the committee.

III. Internal Audits/Reviews

Presiding Chairman Mobley called on Ms. Doran.

A. Gifts Processing Audit Report

Ms. Doran said that Gifts Processing involves the Development Office and the Foundations in that the Development Office allocates support to the University and University-related Foundations. She noted that for areas with a related information technology (IT) component, Audit & Advisory Services (AAS) now includes an IT Environment section to provide information about the systems, data, IT infrastructure and support. This section of the report is also received as information by

University Technology Services (UTS), including the Chief Information Security Officer and the Chief Data Officer.

Ms. Doran reported that AAS performed a risk assessment of Gifts Processing and determined the scope of the review to include:

- Cash Receipts Process – physical security, segregation of duties, allocation to University and Foundation accounts and reconciliations;
- Acceptance protocols for gifts-in-kind including authorization, valuation and tax receipting procedures;
- Compliance with Payment Card Industry Data Security Standards (PCI DSS) for donations received via credit card.

The audit was primarily limited to the financial and operational activities and transactions related to Gifts Processing for FY 2014-15. Ms. Doran reported that with the exception of one finding, the audit determined that Development was properly managing its resources and related risks. The finding involved a third-party service provider for the online donations web application that had not provided evidence of compliance with PCI DSS. Ms. Doran said that management agreed with the finding and was working with the provider to obtain a current attestation to demonstrate compliance.

B. Fine Arts Collectibles Review Memorandum

At the committee's request, AAS conducted a review to gain insight into the risks, key processes, and monitoring structure for fine art collectables held by "non-traditional" units. Ms. Doran said that at the committee's meeting on October 16, 2015, she reported that \$2.1 million of collectibles held in possession of non-traditional units were identified. These are units that do not have a system to track collectibles as would the libraries and museums. The risk AAS hopes to mitigate is that these in-kind collectibles are not monitored regularly in a "system of record" and therefore, have a greater chance of being lost or misplaced over time.

Ms. Doran said that since the Development Office tracks in-kind gifts in a system database, they are in the best position currently to provide central monitoring of fine arts gifts in-kind received by non-traditional units. The Development Office agreed to provide this support until the Capital Asset module of the financial system can support this function.

Ms. Doran responded to questions from Trustee Whittle and Trustee Fennell about the in-kind fine arts inventory, monitoring of the inventory, the assessed value, and insurance coverage. Ms. Doran said that AAS created an inventory and provided it to the Development Office to monitor and that the University's Risk Management Office determines the appropriate insurance coverages.

C. Title IX Sexual Harassment/Violence Audit Report

Ms. Doran said that Title IX is a federal law passed in 1972 that prohibits discrimination on the basis of sex in any federally-funded education program or activity. In 2011, the Dear Colleague letter issued by the Assistant Secretary of the Office for Civil Rights (OCR) included sexual harassment of students and acts of sexual violence as a form of sex discrimination prohibited by Title IX. The letter describes a number of different acts that constitute sexual violence. The Dear Colleague letter included schools' obligations to respond, procedural requirements, steps for prevention and correction. Also, a White House Task Force for Title IX, established in 2014, issued a report to provide guidance for these efforts. The OCR is charged with enforcement and has been active with its enforcement. If an OCR investigation finds Title IX violations, the school risks losing federal funds.

Ms. Doran reported that AAS performed a risk assessment and determined the scope of the review would include: policy review; investigation procedures and documentation; and training and education programs. She clarified that AAS did not review the facts and circumstances of individual cases or the conclusions that were reached, as that was outside of its area of expertise. With the exception of some observations for improvement, AAS determined the office of Equal Opportunity Programs (EOP) was properly managing its resources and related risks.

The audit was primarily limited to the compliance and operational activities related to Title IX Sexual Harassment/Violence for the 12-month period, which ended September 30, 2015. The first finding Ms. Doran said was the need for one comprehensive Title IX Policy for Discrimination and Harassment. She explained that the policy would be an important component of an OCR review. She stressed the need for the policy to be completed promptly.

The second and third findings involved Investigation Procedures and Case Files, where some inconsistencies in documentation of case files were found. Discovering that EOP was not always the lead investigator, AAS recommended EOP be the lead investigator to ensure consistency in investigation and documentation. Ms. Doran noted that a checklist was developed for documents required in a case file to strengthen documentation.

The fourth finding dealt with Title IX Training. Ms. Doran said that while training is available to all faculty and staff, only new employees are required to take it. Also, while training is provided to all students under the age of 23, AAS recommends training be provided to all students regardless of age. A graduate student training program is being developed. Additional recommendations for training include

determining if there should be consequences communicated for failing to report sexual assaults, and the development of a way to track employee training received.

The fifth finding involved the EOP Organization. AAS recommended the University review the current reporting line for EOP to the University General Counsel to determine if a conflict of interest exists and if so, consider other possible reporting lines. Additionally, AAS recommended EOP perform a self-assessment to determine if available resources are sufficient to maintain the level of review required for Title IX compliance. Regarding the Title IX Coordinator, guidance recommends the coordinator have no other job responsibilities and report to either Student Affairs or Human Resources, not General Counsel.

In the sixth finding, AAS recommended that University leadership determine what level of oversight EOP should have in relation to Title IX sexual harassment/violence compliance for the System Campuses, to ensure consistent application of policies and procedures.

The last finding dealt with Study Abroad considerations. AAS recommended the Title IX Coordinator collaborate with the offices of Study Abroad and Enterprise Risk Management & Insurance to develop policies, procedures, and/or protocols for study abroad and Title IX as it relates to sexual harassment/violence.

Presiding Chairman Mobley invited Mr. Gist to the podium to respond to Trustee questions about the University's Title IX training programs. Mr. Gist also noted that several institutions modeled their policies after the University's. Presiding Chairman Mobley thanked Mr. Gist and Dr. Wells for providing the Board a copy of the University's Title IX Compliance brochure and responding to questions.

D. PeopleSoft Human Capital Management (HCM) Pre-Implementation Review Memorandum

Ms. Doran said that, as previously reported, the PeopleSoft HR/Payroll implementation had been delayed. However, before it was delayed, AAS had started to look at the implementation plans for this system. This memo summarizes AAS's observations, based on the early stages of the review, for consideration when the HR/Payroll module is revisited. Ms. Doran briefly discussed the four items to be considered: the business case, the communication plan, the postponement and restart plan, and the minimizing customization by redesigning business processes whenever practicable.

E. Tracking Report

Ms. Doran reported that 11 of 42 recommendations to remedy issues identified through various audits had been implemented. Twenty of the 31 remaining issues were not yet due to be resolved. Below is a summary of the 11 overdue recommendations:

- Six findings delayed due to the PeopleSoft Finance stabilization efforts;
- Two findings related to the University's IT Business Continuity Plans, which affect Banner and all other major Enterprise Resource Planning (ERP) systems for the University, including Student Health Services (SHS) electronic medical records;
- Two findings related to the Banner implementation clean-up involving student identification cards and year-over-year reporting;
- One finding involving the Capital Project Management framework, department manual and budget template.

IV. Audit & Advisory Services

A. FY 2016-17 Audit & Advisory Services Budget

Ms. Doran reported that AAS's projected actual expenses were within \$3,500 of the current fiscal year budget; which included one-time funds of \$40,000 to implement an audit management system.

Ms. Doran said that the FY 2016-17 proposed budget holds total recurring expenses flat except for an additional \$20,000 requested to pay ongoing software maintenance fees for the audit management system.

Presiding Chairman Mobley called for a motion to approve the FY 2016-17 Audit & Advisory Services Budget as presented, and to recommend it to the Executive Committee for inclusion in the University's FY 2016-17 Budget. Mr. Burroughs so moved and Mr. Westbrook seconded the motion. The vote was taken and the motion carried.

B. FY 2016-17 Audit Plan

Ms. Doran said that AAS conducts an annual review of the plan to consider whether adjustments are warranted due to emerging or changing risks. This annual review resulted in the addition of three audits, all in the IT area: Access Management and Controls; IBM Contract Compliance and Billing; and IT Security-Compliance with State Regulations.

Presiding Chairman Mobley called for a motion to approve and forward the FY 2016-17 Audit & Advisory Services Audit Plan to the Executive Committee for its review and approval, as required by Board of Trustees Policy 1.06. Mr. Westbrook so moved. Mr. Whittle seconded the motion. The vote was taken and the motion carried.

C. Annual Report

Ms. Doran said that of the areas she focused on in her 2 ½ years as Executive Director of AAS, of most importance was obtaining University compliance with professional standards for

internal auditors. Toward that goal, AAS achieved several accomplishments. First, AAS conducted a University Risk Assessment and developed a three-year risk-based audit plan. The plan expires at the end of the fiscal year, at which time AAS would begin the process to develop a new three-year plan.

Additional AAS achievements include the development of internal procedures and risk-based auditing; the establishment of an independent and anonymous hotline; electronic audit work papers and audit reports; and the implementation of IT audit capability. Implementation of the TeamMate audit management system is scheduled for July 2016.

In Spring 2017, AAS will conduct a quality assurance self-assessment of its compliance with audit standards in preparation of an external quality assurance review the following fiscal year. Ms. Doran said that, once received, she would share the results with the committee.

Ms. Doran reported that among several ongoing support efforts AAS provided the University system, the Financial Stewardship and Internal Controls training program had been well received. Currently offered twice a year, due to waiting lists, consideration was being given to expanding the program. In addition, AAS performs advisory audits on specific areas as requested by management.

Ms. Doran discussed the importance of the AAS staff's involvement in professional organizations and peer groups. She noted that she was the incoming President of the Association of College and University Auditors (ACUA), and currently serves as its Vice President.

Ms. Doran summarized the goals of AAS: to raise awareness of stewardship responsibilities and leading internal control practices; to provide assurance that the University's high priority risk areas, within AAS' purview, are appropriately managed by performing assurance audits; and to establish a high quality and value-added internal audit service organization.

Trustee Fennell commended Ms. Doran for being named President of the ACUA. He said her appointment would bring national recognition to the University. He thanked her for bringing the University's audit process into the 21st Century and for implementing an audit management system.

Presiding Chairman Mobley said that the report was available on the Board Portal; and he stated that the report was received as information.

V. Audit and Compliance Committee Matrix Review

Ms. Doran informed the committee that an updated matrix had been provided on the Board Portal. She said that the committee had completed all items of business on the matrix for the fiscal year. Also, with Chairman Smith's approval, Ms. Doran noted that her performance review would be postponed until the August meeting.

VI. Other Matters

Presiding Chairman Mobley called for any other matters to come before the committee.

There were none.

Presiding Chairman Mobley said there was a personnel matter appropriate for discussion in Executive Session. He called for a motion to enter Executive Session. Mr. Burroughs so moved and Mr. Whittle seconded the motion. The vote was taken and the motion passed.

Presiding Chairman Mobley invited Trustees, President Pastides, Secretary Stone, Mr. Parham and Mr. Byrd to remain. He noted for those individuals not invited to remain, there would be no action taken as a result of the Executive Session; and that the meeting would adjourn upon Return to Open Session.

EXECUTIVE SESSION

RETURN TO OPEN SESSION

VII. Adjournment

Since there were no other matters to come before the committee, Presiding Chairman Mobley called for the meeting to adjourn at 2:15 p.m.

Respectfully submitted,

Amy E. Stone
Secretary