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University of South Carolina
BOARD OF TRUSTEES

Audit and Compliance Committee

October 12, 2017

The Audit and Compliance Committee of the University of South Carolina Board of Trustees met at 11:00 a.m. on Friday, October 12, 2017, in the JM Smith Boardroom at USC Upstate's Health Education Complex.

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

Other Board members present were: Mr. Mark W. Buyck Jr.; 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; Mr. Eugene P. Warr Jr.; and Mr. Thad H. Westbrook.

Also present were: Faculty Senate Chairman Marco Valtorta and USC Columbia 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 Human Resources Chris Byrd; Vice President for Information Technology Doug Foster; Vice President for System Planning Mary Anne Fitzpatrick; Chief Communications Officer Wes Hickman; Deputy Provost Helen Doerpinghaus; Executive Director of Audit & Advisory Services Pam Doran; Palmetto College Chancellor Susan Elkins; USC Aiken Chancellor Sandra Jordan; USC Beaufort Chancellor Al Panu; USC Upstate Chancellor Brendan Kelly; Athletics Director Ray Tanner; University Treasurer Pat Lardner; University Controller Mandy Kibler; Executive Director of Economic Engagement William D. "Bill" Kirkland; Director of State Government Relations Derrick Meggie; Director of Financial Reporting, Controller's Office, Sandy Smith; USC Aiken Executive Vice Chancellor for Academic Affairs Jeff Priest; Brian D'Amico and Kate Pollard, with Elliott Davis Decosimo; and Board staff member Debra Allen.

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.

II. External Audits

Chairman Smith called on Mr. D'Amico, with Elliott Davis Decosimo (EDD), to present.

A. Financial Statement Audit, Fiscal Year 2016-2017

Mr. D'Amico, a shareholder with EDD, presented the financial statement audit for the year ended June 30, 2017. He noted the success of the audit process due to the University's transition to new accounting/general ledger software. The auditors completed their work and, based on the audit procedures performed, EDD issued an unmodified opinion on the University's financial statements. An unmodified opinion indicates that the University has fairly presented its financial statements in accordance with generally accepted accounting principles (GAAP). Fair presentation in accordance with GAAP is of great importance to the primary users of the University's financial statements such as bond underwriters and federal granting agencies.

Mr. D'Amico discussed the Management's Discussion and Analysis highlights. First, the University's total assets increased by \$48.3 million due to increases in cash and restricted cash of \$38.5 million. The increase was a result of bond proceeds for athletic facility projects and increases in tuition and fee revenues. Secondly, the primary increase in noncurrent liabilities of \$106 million was attributed to a \$95.6 million increase in net pension liability, which is out of the University's control.

Trustee Cofield asked Mr. D'Amico why he was not overly concerned about the University's net pension liability issue. He responded that in his personal opinion, the GAAP reporting requirement was not fair in that the University had to report the State pension liability, when it did not incur the liability. Discussion ensued. Ms. Brunelli explained in specific detail how the employee/employer contribution rates affect the pension fund and the liability to the University.

Mr. D'Amico reviewed the University's positive Statement of Net Position (Balance Sheet); Statement of Revenues, Expenses and Changes in Net Position (Income Statement); and Statement of Cash Flows. Also, the Governmental Discretely Presented Component Units Statements of Net Position and the Statement of Revenues, Expenses and Changes in Net Position for the South Carolina Research Foundation, the School of Medicine Educational Trust, and the Beaufort-Jasper Higher Education

Commission. And, the Non-Governmental Discretely Presented Component Units Statements of Financial Position and Statements of Activities for the USC Development, Educational, Business Partnership Foundations, the Greater USC Alumni Association, USC Upstate Foundation, USC Upstate Capital Development Foundation, and the Educational Foundation of USC Lancaster.

Mr. D'Amico noted two points regarding future financial statements. The University will have to comply with Governmental Accounting Standards Board (GASB) 75, which will cause other post-employment benefits (OPEB) in addition to pensions to be included on financial statements; GASB 87, which requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Ms. Brunelli responded to Trustee Whittle's questions regarding the lease impact.

B. System Audit Management Letter

The University's management letter includes items that are not audit findings, but are possible deficiencies or weaknesses. If a significant or material weakness is identified, government auditing standards require notification to the University by EDD.

The good news, Mr. D'Amico said, is no significant deficiencies nor material weaknesses were identified in the course of the audit. The University's Controller's Office provided responses for weakness on the recording of grant revenue and accounts receivable issues to prevent their reoccurrence in subsequent years. He gave the University's Controller's Office credit for bringing several items to the auditors' attention.

Trustee Fennell asked for the University's new controller to be introduced. Ms. Brunelli recognized Mandy Kibler, who she said has served as University Controller for the past 10 months, during the PeopleSoft implementation. Ms. Kibler has been with the University since 2014 and prior to that was the chief financial officer for the State Board for Technical and Comprehensive Education.

Trustee Fennell raised specific questions about the audit with Mr. D'Amico.

Trustee Burroughs asked when the committee would receive a more detailed report of University units' performance. Chairman Smith said the topic would be included in the Board's January 2018 Retreat.

Trustee Fennell read the following statement from page 12 of the audit and suggested it should be communicated to the legislature.

The University continues to cultivate both student quality and access through innovative programs such as the Gamecock Gateway. The Gamecock Gateway is a program designed as a bridge to enrollment at the University. This one-year residential program is offered by invitation only to students who begin their course work at a local technical college and have access to University programs before transferring in their second year. For the Fall 2017 semester 440 new students are enrolled and more than 1,850 students have been served by the program since its inception. The Gamecock Guarantee program provides access to the lowest income South Carolinians and has served 1,098 students since it began in 2008. The average freshman family income of program participants is \$19,925 and gift aid is more than 95%. These students retain and graduate at a higher rate than the total undergraduate population.

Chairman Smith responded that he will ask Mr. Hickman to follow up on communication of the information.

Chairman Smith thanked Mr. D'Amico and stated these documents were provided in the meeting materials and were received as information.

III. Internal Audits/Reviews

Chairman Smith called on Ms. Doran to present.

A. Hiring Practices Audit Report

Ms. Doran explained that Human Resources (HR) oversees all aspects of the employment process for the University System including: recruitment and hiring, salary administration and benefits, employee relations, diversity, and training and development. The HR department has over 65 employees. In calendar year 2016, HR assisted in hiring 1,881 new University employees.

Ms. Doran reported on two recent changes affecting the hiring process. In June 2017, HR upgraded the Hiring IT System from PeopleAdmin 5.8 to SelectSuite 7.0 and selected a new background check vendor.

The Hiring Practices audit scope included: determining if potential conflicts of interest are properly managed during the hiring process; verifying compliance with background and reference check policies; determining if search firms are providing necessary candidate information to allow the University to accurately obtain federally-required Equal Employment Opportunity (EEO) reports; determining compliance with Federal I-9 and E-verify requirements; and determining if system workflows for key processes were completed and approved by the functional users.

Ms. Doran said the three lines of defense model was applicable to the audit findings: the unit staff reviews background and reference checks in the hiring process; the central HR office monitors whether

policy has been followed; and Audit and Advisory Services (AAS) audits the hiring activities. In the case of this audit, she reported HR was not consistently monitoring the units' background and reference checks.

Trustee Whittle expressed his concern that out of the 50 employee hirings audited, 17 were found to have been completed without background checks. Mr. Byrd responded that of those 50, over half were part-time, temporary hires for positions at the Colonial Life Arena; and the process to ensure background checks are conducted had improved with the transition from a manual to an electronic system.

In addition to AAS's recommendation to improve the monitoring of background checks, the audit determined external search firms were not providing EEO data. HR agreed to include the requirement in search firm contracts.

The third audit recommendation dealt with the PeopleAdmin system upgrade implementation. Ms. Doran said AAS recommended HR obtain formal sign-offs, with user acceptance testing prior to implementation.

B. School of Law Construction Final Progress Report

Ms. Doran said the audit focused on three areas for the \$80 million School of Law construction project for the period January 1, 2017 through September 30, 2017. 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 AAS found no significant reportable issues during the course of the audit process.

Ms. Doran noted however, as there was a \$2.5 million balance related to direct bill expenses, she anticipated one additional Progress Report.

C. Tracking Report

In the Tracking Report, Ms. Doran said five of the 28 audit findings noted in August 2017 had been implemented. Of the remaining 23 findings, nine were not yet due and 14 are overdue. Of the 14, eight are very close to completion (March 2018); one is reliant on an external party (Banner Student ID's); one is pursuing a longer-term plan (Banner Data Dictionary); and four involve the Contract Approval Audit. She reported efforts were underway to address the concerns in the remaining findings.

Trustee Fennell asked for an update on the University's HIPPA compliance finding and his understanding that an additional staff member would be hired to address this issue. Mr. Parham responded interviews for this position were underway. He noted, as he had at a previous meeting, the

position would be filled by a licensed attorney, who in addition to HIPPA compliance responsibilities, would provide other legal assistance.

Trustee Fennell expressed his concerns related to the outstanding findings in the Contract Approval Process Audit. Mr. Parham said he and his staff were assessing contract approval software systems used by other universities and were in the process of updating the contract approval form to provide clearer, required directions.

Mr. Lordo asked for an update on the Policy for Title IX outstanding finding. Mr. Parham said the landscape of Title IX had changed with the administration changes in Washington, D.C. As a result, federal requirements are changing and the University, which has been in compliance, is working to maintain compliance with new requirements as they are mandated.

Chairman Smith stated the reports were received as information.

IV. Conflict of Interest Disclosure System and Policy

A. Staff Conflict of Interest System Demonstration

Ms. Doran demonstrated the new online University Conflicts of Interest reporting system, expected to be available for use by University staff in January 2018. She responded to Trustee questions.

B. BTRU 1.18 Conflicts of Interest and Commitment Policy

Ms. Doran said she presented BTRU 1.18 as “information only” in the March 2017 Audit and Compliance meeting, and is presenting it for committee’s and full Board approval. Development of the Conflict of Interest (COI) training for authorized approvers is underway. BTRU 1.18 is a comprehensive policy for faculty, staff, research and board member disclosures that defines conflicts of interest and conflicts of commitment; describes activities required to be disclosed; and refers to disclosure procedures based on roles at the University.

Ms. Doran stated the COI disclosure requirements include questions regarding:

- Employee or immediate family member has financial interests in an entity that is related to the employee’s area of professional expertise or institutional responsibilities
- Employee or extended family member has a role in an entity that conducts business with the University
- Employee has a personal relationship that could affect or appear to affect administrative decisions of the University and the employee is in a decision-making role or otherwise is in a position to influence the University’s decisions
- Faculty with outside professional activities, staff with outside employment.

Ms. Doran reported that since March 2017, the draft BTRU 1.18 had been presented to the President's Executive Council, the Council of Academic Deans, and HR Partners Group; a staff online disclosure system had been developed; and disclosure questions had been reviewed with the Provost's Office and Sponsored Awards Management for synchronicity with faculty and research disclosure questions.

Ms. Doran explained 2018 would be the pilot year of the staff disclosure process for approximately 1,600 of the University's 5,440 staff with supervisory purchasing approval authority. Disclosures will be routed to COI authorized reviewers and HR will review conflict management plans. She noted AAS will have access to online disclosures and conflict management plans.

Chairman Smith called for a motion to recommend full Board approval to update the BTRU 1.18 Conflicts of Interest and Commitment policy as presented by Ms. Doran and described in the materials posted on the Board Portal. Mr. Whittle so moved and Mr. Burroughs seconded the motion. The vote was taken and the motion carried.

Trustee Whittle asked Ms. Doran and Mr. Byrd to share an annual report of the COI disclosures.

V. Audit & Advisory Services

A. Title Change from Executive Director to Chief Audit Executive

Chairman Smith said that working with Ms. Doran, he requested this title change to keep the University competitive in the job market. Ms. Doran said she had reclassified her audit staff to be competitive and that the title change was in keeping with the upgraded staff positions.

Chairman Smith called for a motion to recommend full Board approval of the title change from Executive Director of Audit & Advisory Services to Chief Audit Executive. Mr. Whittle so moved and Mr. Burroughs seconded the motion. The vote was taken and the motion carried.

B. BTRU 1.06 Audit & Advisory Services Policy

Based on her staff's self-assessment recommendations to update and strengthen Policy BTRU 1.06, Audit & Advisory Services (which serves as the department's charter), Ms. Doran offered an extensive revision of the policy for the committee's consideration. The overall conclusion of the self-assessment was "Generally Conforms," the highest rating for a Quality Assurance Review. Changes to the policy include: organizing the policy in charter format; complying with Institute for Internal Auditors (IIA) Standards; documenting authorities and activities already in place; performing risk assessments; documenting the Executive Director of Audit and Advisory Services' reporting requirements and the Quality Assurance Program.

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. Burroughs seconded the motion. The vote was taken and the motion carried.

VI. Audit and Compliance Committee

A. Matrix Review

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

B. Self-Assessment

At Chairman Smith's request, Ms. Doran provided the committee a self-assessment form to complete and return by the end of the day.

VII. The Inn at USC Financial Review

Chairman Smith noted University Foundations Executive Director Russ Meekins was originally scheduled to present, but was unable to attend due to illness. Therefore, he called on Mr. Walton for a brief overview.

Mr. Walton said The Inn, which is owned by the USC Development Foundation, is managed by Wyndham Hotels and Resorts. He shared the following data:

	<u>Revenues</u>	<u>Expenses</u>	<u>Profits</u>	<u>Occupancy Rate</u>
FY 2014-15	\$4,166,203	\$4,148,884	\$282,568	70.89%
FY 2015-16	\$4,471,352	\$4,280,452	\$448,628	72.91%
FY 2016-17	\$4,541,986	\$4,250,885	\$629,393	70.64%

Following some discussion, Trustee Burroughs asked that additional detail be provided.

VIII. Other Matters and Adjournment

Chairman Smith called for any other matters to come before the committee. There were none he declared the meeting adjourned at 12:22 p.m.

Respectfully submitted,

J. Cantey Heath, Jr.
Secretary