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University of South Carolina

BOARD OF TRUSTEES

Audit and Compliance Committee

March 17, 2016

The Audit and Compliance Committee of the University of South Carolina met at 11:00 a.m. on Thursday, March 17, 2016, in Library Room 237 on USC Beaufort's Hilton Head Gateway Campus.

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. Members absent were: Mrs. Paula Harper Bethea; Mr. J. Egerton Burroughs; and Mr. Charles H. Williams.

Other Board members present were: Mr. Mark W. Buyck Jr.; Mr. Thomas C. Cofield; Mr. A. C. "Bubba" Fennell III; Dr. C. Edward Floyd; Mr. William W. Jones Jr; Mr. Toney J. Lister; and Mr. Miles Loadholt.

Chairman of the USC Columbia Faculty Senate August E. "Augie" Grant was also present.

Others present were: President Harris Pastides; Secretary Amy E. Stone; General Counsel Walter "Terry" H. Parham; Chief Operating Officer Edward L. Walton; Chief Financial Officer Leslie Brunelli; Provost Joan T. A. Gabel; Vice President for Student Affairs Dennis A. Pruitt; Vice President for Human Resources Chris Byrd; Chief Communications Officer Wes Hickman; Executive Director of Audit & Advisory Services Pam Doran; Athletics Director Ray Tanner; USC Aiken Chancellor Sandra Jordan; USC Beaufort Chancellor Al Panu; Director of Facilities Design and Construction Jeffrey D. Lamberson; Chief of Staff, President's Office, J. Cantey Heath Jr.; USC Vice Chancellor for Advancement Lynn McGee; USC Beaufort Interim Executive Vice Chancellor of Academic Affairs Gordon Haist; USC Beaufort Chief Information Officer Eddie King; USC Columbia Student Government (SG) President Michael Parks; former USC Columbia SG President Jonathan Kaufman; Distinguished Professor Emeritus of Finance and Insurance, Darla Moore School of Business, Travis Pritchett; and Board staff member Debra Allen.

I. Call to Order

Chairman Smith called the meeting to order, welcomed those in attendance and asked them to introduce themselves. Mr. Hickman informed the committee that no members of the media were 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.

II. Internal Audits/Reviews

Chairman Smith called on Ms. Doran.

A. College of Hospitality, Retail and Sport Management Audit Report

The audit was primarily limited to the financial, operational, and compliance activities and transactions of the College of Hospitality, Retail and Sport Management (HRSM) for Fiscal Year 2015.

The scope of the audit included:

- Determining if scholarships are awarded based on donor and departmental guidelines
- Determining if Academic Assessment Plans are developed and approved with clear, specific, and measurable objectives
- Evaluating whether goods and services are prudently purchased and properly authorized
- Assessing internal controls over McCutchen House assets, including the collection and deposit of cash, for efficiency and effectiveness
- Determining whether the budget monitoring process is optimized
- Verifying expenses are being properly allocated to the University of Aruba Collaboration and contracts are being met.

In addition, the Office of Risk Management requested Audit & Advisory Services (AAS) verify the accuracy and completeness of reported non-paid interns to determine if sufficient workers' compensation coverage was being purchased.

During the audit engagement, AAS learned of an Administrative Chair Trustee (Fund) account associated with the Canteen Corporation Professorship of Sports Administration endowment, which was established in September 1988 that had not been active for several years. The HRSM management was unaware of the account, but since being notified they are able to take advantage of the Fund and have begun considering disbursements. As of June 30, 2015, the Fund had accumulated \$260,778 in endowment income. Annual income from the gift's \$100,000 principal is intended to provide funding for a salary supplement and program – related expenses to attract and retain outstanding faculty.

Ms. Doran reported that except for three audit findings (McCutchen House Asset Controls, Scholarship Award Procedures, and Academic Assessment Plans), AAS determined that the College of HRSM was properly managing its resources and related risks within the scope of the review.

To address the McCutchen House Asset Control finding, AAS recommended management implement a Point of Sale (POS) system to include, but not be limited to, tracking of inventory customer and sales data analysis; invoicing vendors; and employee time management. A POS system would also serve to educate students using the system in restaurant management technology and best practices, according to AAS. HRSM anticipates the POS system being added by May 1, 2016.

Regarding the Scholarship Award Procedures finding, Ms. Doran said AAS recommended the establishment of monitoring procedures for scholarship eligibility post-award. HRSM is currently working to have a process in place prior to the start of the Fall 2016 semester. Additionally, the audit revealed that HRSM should reimburse the endowment account for \$1,000. The request to do so was initiated by the college.

Finally, two programs within HRSM (Hospitality, Retail, and Tourism Management, and the Master's in Health Information Technology) are currently working with the Office of Institutional Research and Assessment to develop academic assessment plans, as noted in the third finding.

B. HIPAA Compliance Audit Memo

Ms. Doran noted that the memo summarized discussions with Mr. Walton in January 2016, regarding the assessment of the University's Health Insurance Portability and Accountability Act (HIPAA) Compliance Program. In March 2015, AAS presented results of a Security Audit Report for Student Health Services, conducted by an information security consulting firm hired by the University, which included a system-wide survey to identify units that may be covered entities as defined by HIPAA.

The result of those discussions was the joint decision to dedicate resources to help with HIPAA compliance, in light of the continually evolving and complex regulations. Therefore, funding will be included in the University's 2016-17 Fiscal Year budget to accommodate the hiring of a HIPAA privacy/security officer and an information technology (IT) support professional to be responsible for implementing a HIPAA compliance program. AAS recommended the HIPAA officer have a dual reporting relationship to the University's general counsel and chief information security officer.

Trustee Fennell questioned why the funding for a HIPAA compliance officer was just being considered for the upcoming fiscal year, when it had been first recommended as early as 2011 and again in the 2015 audit. Ms. Doran said that HIPAA affects several areas in the University system. Mr. Walton explained that the University's biggest risk areas were already covered and that these would be system-wide oversight positions.

Chairman Smith suggested contacting Les Hall, Executive Dean for the USC School of Medicine to see if there was an officer within the School of Medicine who could assume the HIPAA Officer responsibilities. Trustee Westbrook agreed with Chairman Smith's suggestion. Also, he added that assigning a current technology employee to assume the IT responsibilities would allow not only a budgetary saving, but provide a more immediate resolution to the situation. Trustee Whittle agreed with the Chairman and Trustee Westbrook's suggestions, stressing the efficiency benefit of one person overseeing all HIPAA compliance for the University, rather than the individual units. Ms. Doran added that the research activities using data required to be HIPAA compliant was currently the University's biggest risk area that was not being consistently monitored.

Chairman Smith requested Mr. Walton prepare a plan to fill the two positions, based on the discussion, and provide it to the committee within 30-60 days.

C. School of Law Construction Progress Report II

Ms. Doran said the audit focused on whether the procurement process for the construction manager at risk was in compliance with State regulations and University policies; payment applications and management fees were consistent with terms and conditions of the construction contracts; appropriate insurance coverage existed; and change orders were reasonable and properly approved on the \$80 million School of Law construction project for the period July 1, 2015, through December 31, 2015.

Ms. Doran reported that the audit staff found no significant reportable issues during the course of the audit process. She noted that Facilities had reported the project currently was both on budget and on time.

D. Review of First and Second-Quarter FY16 President's Office and Board Office Expenditures

Ms. Doran said that AAS's review of the July 1 – December 31, 2015, expenditure summaries found no reportable issues.

E. Tracking Report

Ms. Doran stated that out of the 29 findings noted in her report, 9 had been implemented. Of the remaining 20 findings, 11 were not yet due. Efforts were underway to address the concerns in the remaining findings.

III. Audit and Compliance Committee Reviews

A. Board of Trustees Policies

Ms. Doran stated that upon her annual review of Board policies, according to the committee charter, she proposed no changes.

B. Committee Charter

Ms. Doran stated that upon her annual review of the committee charter she proposed no changes.

C. Committee Matrix

Ms. Doran informed the committee that an updated matrix had been provided on the Board Portal. She noted that all items scheduled for completion by the meeting date had been accomplished.

Ms. Doran brought to the committee's attention that several of the risk areas it reviews individually, according to the charter, would be transitioning to the University's Enterprise Risk Management (ERM) Program. The committee would receive an annual update on the ERM Program, including discussions of any high risks identified by the ERM team.

IV. Other Matters

Chairman Smith asked Ms. Doran to update the committee on the University's Integrity Line; and she responded that prior to each committee meeting she meets with the chairman to review new or outstanding Integrity Line reports.

Discussion then ensued regarding the University's foresight and planning should there be a revenue decline in the future. Mr. Walton assured the committee that the administrative leadership continually updated financial contingency plans for the University, in the event of revenue reductions.

Chairman Smith asked Mr. Walton to update the committee on the implementation of PeopleSoft, not the allegations related to its procurement. Trustee Whittle asked that Ms. Doran be independently involved in the investigation of the PeopleSoft issue and Chairman Smith responded that she was.

Mr. Walton stated that appropriate University personnel were looking into the recent allegations regarding the need for, and selection of, PeopleSoft. As to the implementation, he said that efforts were still underway to stabilize the Finance portion of PeopleSoft and it would be at least 12-36 months before the Human Resources portion of PeopleSoft could be implemented.

Trustee Whittle expressed concern, in light of the PeopleSoft situation, about whether the University's year-end financial reports could be prepared as required. Mr. Walton assured him the administration was working to that end.

Committee members asked to be provided a report at their next meeting on the original PeopleSoft budget versus the actual expenditures. Mr. Walton said that the report would be provided.

Chairman Smith called on Secretary Stone. She introduced the new USC Columbia Student Government President Michael Parks, adding that he would join Trustees at the table at the April meetings.

Chairman Smith called on Chancellor Panu, who welcomed the Trustees to USC Beaufort. Chancellor Panu said he had invited nine faculty members to join the Trustees for conversation over lunch. He gave a brief biography of those faculty members:

- Babet Villena-Alvarez – Building Global Competencies: Arts and Humanities
- Brian Canada – Computer Gaming: “Bugs and Boo-Haigs”
- Dr. Bud Sanders: Building Competencies in STEM programs: Computational Science and Mathematics
- Swati Debroy – Setting Students’ Sights on Graduate School: STEM Programs
- P. Ellen Malphrus – Fiction writing: Story River Books
- Topher Maraffi – New Media and the Arts
- Erik Montie – Aquatic Species of the Lowcountry: Research Protects the Lowcountry Ecosystems
- J. Brent Morris – Civil War and Reconstruction: Beaufort County’s Unique Role
- Najmah Thomas – Culture of Care: Building a Community Focus

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

V. Adjournment

Since there were no other matters to come before the committee, Chairman Smith called for the meeting to adjourn at 12:20 p.m.

Respectfully submitted,

Amy E. Stone
Secretary