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University of South Carolina
BOARD OF TRUSTEES

Audit and Compliance Committee

August 19, 2016

The Audit and Compliance Committee of the University of South Carolina met at 9:00 a.m. on Friday, August 19, 2016, in the Alumni Center's C. Edward Floyd Boardroom.

Members present were: Dr. C. Dorn Smith III, Chairman; Mr. J. Egerton Burroughs; Mr. Hubert F. Mobley; 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.

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 C. Hubbard; Mr. William W. Jones Jr.; Mr. Toney J. Lister; Mr. Miles Loadholt; Ms. Leah B. Moody; Mr. Tommy Preston; and Ms. Molly M. Spearman.

Chairman of the USC Columbia Faculty Senate August E. "Augie" Grant and USC Columbia Student Government President Michael Parks also were present.

Others present were: President Harris Pastides; Secretary Amy E. Stone; General Counsel Walter "Terry" H. Parham; 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 Facilities and Transportation Derrick Huggins; Chief Communications Officer Wes Hickman; Executive Director of Audit & Advisory Services Pam Doran; University Controller Jennifer Muir; University Treasurer Pat Lardner; Athletics Director Ray Tanner; USC Beaufort Chancellor Al Panu; Palmetto College Chancellor Susan Elkins; USC Foundations Executive Director Russell H. Meekins; Associate Vice President for Administration and Finance and Medical Business Affairs Jeffrey L. Perkins III; Associate Vice President and Chief of Police Chris L. Wuchenich; College of Arts and Sciences Dean Lacy K. Ford; University Libraries Dean Thomas F. McNally; Executive Director for the Office of Economic Engagement William D. "Bill" Kirkland; Executive Director of My Carolina Alumni Association Jack W. Claypoole; Director of Facilities Planning and Programming and University Architect Derek S. Gruner; Director of Strategic Planning and Assessment Cameron Howell; Assistant Director, Facilities Design and Construction, Thomas Opal; Associate Athletics Director for Compliance Services Chance Miller; Associate Director of Public Relations, Division

of Communications and Public Affairs, Jeff Stensland; USC Educational Foundation Chairman Boyd B. Jones; Assistant Director of Audit & Advisory Services Glenn Murray; Managing IT Audit Consultant, Audit & Advisory Services, Roscoe Patterson; Chief of Staff, President's Office, J. Cantey Heath Jr.; USC Law Enforcement Captain Eric Grabski and Lieutenant Scott Ellis; USC Aiken Executive Vice Chancellor for Academic Affairs Jeff Priest; USC Aiken Executive Vice Chancellor for Administration and Finance Joe Sobieralski; University Technology Services Production Manager Matt Warthen; and Board staff members Debra Allen and Terri Saxon.

I. Call to Order

Chairman Smith called the meeting to order, welcomed those in attendance and asked them to introduce themselves. Mr. Hickman introduced Rodney Welch with *Free Times* and Avery Wilks with *The State*.

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.

Chairman Smith called for a motion to enter Executive Session for two personnel matters. The first involving staff and a faculty member in the Department of Psychology and the second related to the annual performance evaluation of the Executive Director of Audit and Advisory Services (AAS). Mr. Mobley so moved. Mr. Westbrook seconded the motion. The vote was taken and the motion carried.

Chairman Smith invited the following persons to remain: Trustees, President Pastides, Secretary Stone, Mr. Parham; Ms. Doran, Mr. Byrd, Ms. Gabel, Ms. Brunelli, Dean Ford and Mr. Murray.

RETURN TO OPEN SESSION

II. Internal Audits/Reviews

Chairman Smith called on Ms. Doran.

A. NCAA Rules Compliance

Ms. Doran said that AAS had started to incorporate NCAA Rules Compliance reviews into the annual audit plans. AAS's approach, she explained, is to review two or three areas of the regulations each year for the Columbia campus, in collaboration with the Office of Compliance Services (OCS). This audit scope included the Financial Aid and Rules Education sections.

Ms. Doran reported that no violations were found and that overall, these areas were well managed with the oversight of compliance being performed by OCS. However, AAS made two recommendations for strengthening compliance controls.

Related to Financial Aid, Ms. Doran noted that sometimes students have a change in their residency that is not recognized when aid is awarded. AAS found four instances where students were awarded out-of-state tuition and fees when enrolled as residents. All were identified by OCS before they were a violation. AAS recommended a report be provided at the time aid is being awarded that identifies students changing residency, so that the aid can be awarded based on current residency status.

Ms. Doran said there are several Rules Education Programs developed specifically for certain constituencies. The Board of Trustees and the Development Office are constituencies that the University identified for a rules education program. AAS recommended, and management agreed, to develop these programs.

Trustee Fennell expressed his disappointment that programs for these constituencies were not already in place. Chairman Smith said his point was duly noted.

B. Emergency Planning

Emergency Planning is the process by which the University plans for and responds to emergency conditions to protect students, personnel and facilities. The scope of the review was limited to the operational activities on the Columbia campus for calendar year 2015. AAS first completed a risk assessment to determine the areas of focus for the review. The areas included in this review included:

- Risk assessment activities for foreseeable disasters
- Review of the command structure in place to respond to emergencies
- Examination of the Emergency Operations Plan, including the action plans for foreseeable disasters and after-action reports
- Access controls for emergency management systems including Carolina Alert.

Ms. Doran reported that overall the emergency planning process was being properly managed in all material aspects within the scope of the review. However, AAS did make recommendations for strengthening the procedures.

Ms. Doran said that over the last couple of years Law Enforcement had significantly improved its information technology (IT) infrastructure with the addition of a new server room with built-in redundancy and other safeguards. In addition, the department identified a secondary server recovery site.

AAS recommended implementation of that secondary site, as well as limiting access to the computer server room to only essential personnel.

The last recommendation, she said, was to establish a formal tracking process to ensure actions identified during the after-action reporting process are monitored until they are implemented.

Trustee Westbrook asked Ms. Doran if AAS worked with Law Enforcement on emergency planning for large University events, such as football games. Chief Wuchenich responded that Law Enforcement routinely worked with federal agencies to review the University's emergency planning and addressed any recommendations made.

Trustee Jones recommended AAS review emergency planning for the system campuses. Ms. Doran responded that each campus should already have a plan. Chairman Smith said that review of emergency planning system-wide would be added to AAS's audit plan.

Trustee Fennell asked if there was a University policy to address IT backup guidelines. Dr. Hogue explained that in the University's distributed environment, University Technology Services (UTS) relied more on departmental procedures than institutional policy. He said that UTS conducts daily backups in the University's central computing facility. Dr. Hogue agreed that consideration should be given to creating a policy to standardize backup procedures, since the University is a mix of centralized and decentralized resources.

C. Law School Capital Project Progress Report III

Ms. Doran said that the audit focused on three areas for the \$80 million School of Law construction project for the period January 1, 2016, through June 30, 2016. 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 that the audit staff found no significant reportable issues during the course of the audit process.

Ms. Doran said that as of June 30, expenditures totaled \$49.3 million of the \$80 million budget. She noted that Facilities had reported the building was within budget and on track to be substantially complete in January, with move-in scheduled for spring and summer 2017.

D. Review of Third Quarter FY16 President's Office and Board Office Expenditures

Ms. Doran said that AAS's review of the January 1 – March 31, 2016, expenditure summaries found no reportable issues. The review included: reconciling each operating expense category

reported in the expenditure summaries to the general ledger in the PeopleSoft Finance system; comparing each major expense account to the prior period and budget estimates; reviewing any variance over \$10,000; reviewing supporting documentation for a sample of operating expenses for compliance with applicable policies; verifying quarterly reports sent to the Chairman of the Board detailing the President's development expenses are complete and accurate; and comparing Flight Operation Reports for the University's plane to the Passenger Approval Report, to verify business purpose for the trip.

E. Tracking Report

Ms. Doran noted the new Tracking Report format included a summary table at the top of the report. In this report, 14 audits had a total of 53 outstanding recommendations. Of the 53 recommendations, 18 had been implemented, 23 were not yet due, and 12 were extended. Ms. Doran reviewed the status of the 12 extended findings: four were delayed due to the PeopleSoft Finance stabilization efforts; two were related to the University's IT Business Continuity Plans, which affected Banner and all other major enterprise resource planning (ERP) systems for the University, including Student Health Services; two were related to the Banner implementation clean-up, which were close to completion; and four were taking more time than expected to resolve.

III. Audit and Compliance Committee Matrix Review

Ms. Doran informed the committee that an updated matrix had been provided on the Board Portal and that the committee had completed everything planned for this meeting and the year with a couple of exceptions. She explained that an annual enterprise risk management (ERM) discussion would be held, instead of individual presentations on the areas listed on this matrix. The October matrix will reflect this change.

Ms. Doran said that the other item not completed was the committee's self-assessment. At this point in the meeting, Chairman Smith provided the Board the self-assessment form and asked that it be completed and returned prior to the end of the day.

Trustee Fennell shared an article about Baylor University regarding Title IX, and said he looked forward to a report to the Board on the University's Title IX program. President Pastides said the Board would soon receive a University Title IX comprehensive report and an educational training session.

IV. Budget Comparison Project Extension/Elliott Davis Decosimo, LLC.

Chairman Smith apologized for this item of business being posted late on the agenda. He said that the contract extension with Elliott Davis Decosimo did not require Board approval since it would not exceed \$40,000. Chairman Smith clarified that the contract was to assist the University management

with the development a budget format that could be easily compared to actual results, as reflected in the University's annual audited financial statements. There were no objections to the contract extension.

V. Executive Director of Audit & Advisory Services Annual Performance Appraisal

Chairman Smith said that this item of business would be considered in the full Board meeting later in the day.

VI. Other Matters

Chairman Smith called for any other matters to come before the committee. Secretary Stone made three brief announcements. First, the Board had at their place a Conflict of Interest form that they needed to fill out and return to the Board Office. Second, in addition to being provided in the meeting, the 2017 Board of Trustees Meeting Schedule would be available on the Board Portal. Third, the clear bags including marketing materials that had been provided to the Board by Chancellor Elkins, were in compliance with the new Clear Bag Policy for attendance at athletic events.

VII. Adjournment

Since there were no other matters to come before the committee, Chairman Smith called for the meeting to adjourn at 9:53 a.m.

Respectfully submitted,

Amy E. Stone
Secretary