

The official minutes of the University of South Carolina Board of Trustees are maintained by the Secretary of the Board. Certified copies of minutes may be requested by contacting the Board of Trustees' Office at trustees@sc.edu. Electronic or other copies of original minutes are not official Board of Trustees' documents.

University of South Carolina

BOARD OF TRUSTEES

Audit and Compliance Committee

June 9, 2017

The Audit and Compliance Committee of the University of South Carolina met at 1:15 p.m. on Friday, June 9, 2017, in the Alumni Center's C. Edward Floyd Boardroom.

Members present were: Dr. C. Dorn Smith III, Chairman, who joined by telephone; Mr. Chuck Allen; Mr. Thomas C. Cofield; Mr. Tommy Preston Jr.; Mr. Mack I. Whittle Jr.; Mr. John C. von Lehe Jr., Board Chairman; and Mr. J. Egerton Burroughs who also joined by telephone. Mr. Charles H. Williams was absent. Other Board members present were: Mr. A. C. "Bubba" Fennell III; Mr. William C. Hubbard; Mr. Toney J. Lister; Mr. Miles Loadholt; Mr. Hubert F. Mobley; Ms. Leah B. Moody; Mr. Eugene P. Warr Jr.; and Mr. Thad H. Westbrook. Dr. C. Edward Floyd participated by telephone.

Also present were Faculty Senate Chairman August E. "Augie" Grant 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; 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 Doug Foster; Vice President for System Planning Mary Anne Fitzpatrick; Vice President for Facilities and Transportation Derrick Huggins; Chief Communications Officer Wes Hickman; Executive Director of Audit & Advisory Services Pam Doran; Palmetto College Chancellor Susan Elkins; USC Upstate Chancellor Brendan Kelly; College of Arts and Sciences Dean Lacy Ford; College of Engineering and Computing Dean Hossein Haj-Hariri; Athletics Director Ray Tanner; University Bursar Venessa Samuel; University Treasurer Pat Lardner; Executive Director of Economic Engagement William D. "Bill" Kirkland; Associate Provost for Academic Programs Tena Crews; Chief Diversity Officer John H. Dozier; USC Aiken Executive Vice Chancellor for Academic Affairs Jeff Priest; USC Aiken Vice Chancellor for Finance and Administration Cam Reagin; USC Upstate Vice Chancellor for Administrative and Business Affairs Sheryl Turner-Watts; Associate Director of Public Relations, Office of Communications and Public Affairs, Jeff Stensland; Audit &

Advisory Services Assistant Director Glenn Murray; Audit & Advisory Services IT Audit Manager Roscoe Patterson; Mrs. Cynthia Lister, wife of Trustee Lister; Mrs. Ann Loadholt, wife of Trustee Loadholt; Rachel and Matthew Warr, children of Trustee Warr; University Technology Services Production Manager Matt Warthen; and Board staff members Terri Saxon and Ina Wilson.

I. Call to Order

Chairman Smith called the meeting to order, welcomed those in attendance and asked them to introduce themselves.

Mr. Hickman introduced members of the media in attendance: Avery Wilks with *The State* and Mike Woodel with Quorum Columbia.

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. Designated Funds FY 2017-18 Budget

Chairman Smith called on Ms. Brunelli. She said the Designated Funds Budget is allocated from auxiliary enterprise revenues budgeted for University scholarships and “R” funds, which are Board of Trustees’ controlled funds. She noted the Board approved the same expense budget the prior four years. However, the FY 2017-18 Designated Funds Budget for the Columbia Campus includes a \$50,000 expense increase, supported by vending revenues, for the Commencement, Development, and President’s expenditure accounts. The increase will cover December 2017 and May 2018 commencements; the Williams-Brice Stadium suite operations; and additional donor events.

Chairman Smith called for a motion to recommend the FY 2017-18 Designated Funds Budget to the Executive Committee for inclusion in the University’s FY 2017-18 Budget. Mr. Whittle so moved. Mr. Cofield seconded the motion. The vote was taken and the motion carried.

III. Audits & Advisory Services

Chairman Smith called on Ms. Doran.

A. University Risk Assessment and Three-Year Audit Plan

Ms. Doran said three years ago, she presented Audit & Advisory Services’ (AAS) first University Risk Assessment and Three-Year Audit Plan; today, the second. She introduced AAS Assistant Director Glenn Murray and IT Audit Manager Roscoe Patterson. She said they were instrumental in the risk assessment process and the development of the Three-Year Audit Plan.

As part of the development process for the University Risk Assessment and Three-Year Audit Plan, Ms. Doran said, AAS compiled a significant amount of data taking into account federal and state regulatory compliance, University policies, and contract obligations; assessed what was learned through 76 risk interviews conducted across the University system, including the University's external auditors and peer institutions; considered higher education issues in the news; consulted with the University's Enterprise Risk Management process to determine what issues had risen to high risks; reviewed the University's assurance and consulting engagements; reviewed special investigations during the three-year period to determine common themes, the impact and likelihood of the risks, and whether the University has adequate coverage to manage its risks. The results of the risk assessment were used to develop the Three-Year Audit Plan.

Ms. Doran explained the information gathered was categorized as strengths, common themes and high priority risks. University strengths included executive leadership; branding; ability to recruit higher quality students, faculty and staff; and a willingness to invest in facilities and infrastructure to offer a quality student experience on reduced state funding. These strengths can be leveraged to determine risk mitigation strategies, she said.

Ms. Doran called on Mr. Murray to discuss the common themes of high priority risks noted in the assessment. He said AAS will consider the potential impact of the identified common themes in undertaking its activities. These include:

Financial Sustainability: Declining state appropriations, coupled with rising tuition, make the cost of education more difficult to cover. The University must balance revenue sources with the cost of doing business.

Remaining Competitive: Maintaining and optimizing campus buildings and space, ensuring uninterrupted and efficient operation, and providing a quality educational experience are all crucial to remaining competitive and attracting the best students, faculty and staff.

System Identity: The University System has grown and evolved over time. The organizational structure, shared services model, and governance activities have not evolved at the same pace. An established system identity will address system risks, provide the needed services to all campuses, enable efficient and effective operations, and assist with the viability of the campuses.

Succession Planning: The variety of challenges facing higher education and USC make it crucial to have well-developed leaders prepared with diverse experiences to step into senior leadership roles. With the State TERI Program ending in 2018, the University will lose approximately 300 faculty and staff.

Student Behaviors: Student behaviors nationally, including activism, protests, Title IX compliance issues, mental health issues, Greek life events, and sexual assault raise the need to mitigate the risks associated with these behaviors and develop response plans.

Data Integrity: It is important that reliable financial and non-financial data be readily available to University leadership in order to remain competitive and fulfill a variety of regulatory reporting needs.

IT Infrastructure: The role of information technology (IT) in operations continues to grow. Not only does the University's central administrative systems (i.e. student, financial, human resources) depend on the IT infrastructure, so do research activities, online classes and teaching support, health services systems and records, University e-mail, and a myriad of other activities and operations.

Mr. Murray discussed important points to consider, when evaluating the University's high priority risks. He said although some risks can be resolved with structured, proactive processes, there are ongoing risks beyond the University's control that can be managed, but not eliminated. Therefore, the Board of Trustees, the Audit and Compliance Committee, risk management committees, and senior leaders should monitor the University's efforts for mitigating high priority risks. He said the risk assessment process primarily measures inherent risk before internal controls or management plans are applied. High priority risks must be considered periodically in the audit plan to provide assurance on the design and operating effectiveness of controls that are in place.

Mr. Murray said AAS developed a risk framework structure in order to draft the audit plan. The high priority risk areas for the University, which were revealed in the assessment, are categorized as follows:

<u>Type of Risk</u>	<u>Risk Areas</u>
Hazard	Emergency planning, disaster recovery, laboratory safety, and student safety/crime prevention (including Title IX compliance)
Financial	Economic decline, capital debt capacity
Strategic	Competition, customer demand, customer/industry changes
Operational	Processes, systems, controls (the majority of audits fall in this category)

Mr. Murray explained that due to the nature of the higher education industry and observations raised by interview participants, AAS did not highlight high priority risks as "problems." Rather, AAS indicated these risk areas may warrant the University's attention and/or inclusion in the audit plan. He said risk assessment provides an understanding of risk mitigation approaches; it is not meant to test mitigation strategies nor to review the University's response to the risks identified.

Ms. Doran called on Mr. Patterson to present the Three-Year Audit Plan, which begins with FY 2017-18. He noted prior to implementing years two and three of the plan, AAS would “gauge the environment” and reassess the plan’s priorities. In reviewing the plan’s areas of engagement, he noted that NCAA Compliance PeopleSoft (Human Resources/Payroll) modules were included each year.

Ms. Doran discussed activities conducted by AAS, in addition to the engagements outlined in the Three-Year Audit Plan. These included:

- Determine if action plans have been effectively implemented through follow-up audits
- Deliver training on stewardship, research audit activities, enterprise risk management concepts/processes and other areas as requested
- Provide advisory services as requested by management, including participation on University committees
- Oversee the University’s Integrity Line and conflict of interest discussions
- Conduct fraud investigations and related internal control reviews
- Attend continuing education conferences and seminars to stay current and to meet professional certification requirements
- Manage the hiring and contracting of external audit services, as well as preparing for an external audit quality assurance review.

Chairman Smith called for a motion to approve and forward the University Risk Assessment and Three-Year Audit Plan to the Executive Committee for its review and approval, as required by Board of Trustees Policy 1.06. Mr. Whittle so moved. Mr. Preston seconded the motion. The vote was taken and the motion carried.

B. FY 2017-18 Proposed Audit & Advisory Services Budget

Ms. Doran reported AAS’s budget request for FY 2017-18 showed an overall increase of \$110,000 to fund salary realignments. She explained that in the past fiscal year, two senior audit consultants left the University for higher salaried opportunities provided by other state agencies. As a result of these departures, she worked with human resources compensation staff to realign AAS’s positions and salaries with the market to retain staff.

Ms. Doran said she had initially requested funding for an additional auditor, but given the two vacancies and the need to train two new auditors, she deferred increasing the staff size until the following fiscal year. If needed, she said she would augment the staff with audit consultants.

Chairman Smith called for a motion to approve the FY 2017-18 Audit & Advisory Services Budget as presented, and to recommend it to the Executive Committee for inclusion in the University’s FY 2017-18 Budget. Mr. Whittle so moved and Mr. Cofield seconded the motion.

Trustee Fennell asked Ms. Doran if she had adequate resources to accomplish AAS goals. Based on benchmarking data from other SEC schools and the University's risk assessment, Ms. Doran said an additional staff position was needed and she planned to include it in the FY 2018-19 Budget.

The vote was taken and the motion carried.

#### IV. Internal Audits/Reviews

##### A. USC Upstate Business Operations

Ms. Doran said the Three-Year Audit Plan included an audit of USC Upstate. She explained USC Upstate financial transactions included research, human resources, and student transactions that are all processed in the University's core systems PeopleSoft, IMS and Banner. These transactions are audited during reviews of those core business cycles. When AAS audits a campus, it tends to focus efforts on business processes local to the campus. Therefore, the scope of the USC Upstate Business Operations Audit included: payment receipts in the Upstate Bursar's Office and in individual departments (Upstate received more than \$5.5 million in non-tuition and fee payments for fiscal year ending June 30, 2016); refunds; housing billings; emergency planning for the campus; and Information Technology (Upstate has a local IT department to provide campus support for email, network services, and local system support such as the health and counseling systems).

AAS concluded USC Upstate was properly managing business processes in the scope of the review, other than the exceptions noted in the audit.

The first area for improvement dealt with Payment Receipts. Ms. Doran explained controls over reconciliations and voided receipts needed to be strengthened to ensure all cash and checks received are deposited and accounted for. AAS recommended Upstate work to reduce the need for cash handling by moving to more online payments and to reduce the number of receipting departments, "as this is administratively burdensome and adds to the risk of loss," she said. The Bursar's Office should provide oversight for those receipting functions that remain by performing periodic reviews of controls and providing training when needed.

Ms. Doran and Ms. Brunelli responded to Trustee Fennell's questions about efforts made to reduce cash and increase online functions.

Ms. Doran said three IT Functions needed improvement. The first is the Business Continuity and Disaster Recovery Plan. USC Upstate has a continuity plan and has contracted with a third-party for backup in the event the data center is damaged. However, the plan is neither documented nor periodically tested to ensure it works as intended.

The second area in need of improvement is System Classification, which addresses understanding the data and criticality of the systems in the operation of the campus. This is necessary to help determine the priority of recovery in the event of a disaster, needed security measures, and necessary resources to support the systems. AAS recommended a plan to complete a system classification study.

The third improvement area is the need for Data Stewards to have the responsibility of each system's data that assists with security and system classification efforts. AAS recommended data stewards be assigned to each system.

Ms. Doran reported that USC Upstate management agreed with all of AAS recommendations.

#### B. USC Columbia Bursar's Office Operations

Ms. Doran reported that last fiscal year, the Bursar's Office received revenue totaling \$531 million from a variety of sources, but primarily tuition and fees. With this amount of money flowing through the department, she said it is important that controls are working as intended. AAS reviewed the following:

- Physical security of the cash, checks and money orders
- Accounts Receivable reconciliations
- Cashier collection procedures for the accounting of receipts
- Selected departments for collection procedures
- Bursar's Office monitoring of collection agency activities
- Selected departments' Allowance for Doubtful Accounts balances

AAS concluded the Bursar's Office is properly managing the business processes in the scope of the review, other than the exceptions noted in the audit. First, regarding Accounts Receivables, the audit revealed that writing off past due, uncollectible accounts was not being performed in a timely manner and there is no policy on delinquent accounts receivable collection.

Secondly, related to the transition from the legacy system to the Banner system, issues were noted whereby multiple Educational Foundation accounts related to scholarship receivables were delinquent by more than 365 days totaling \$205,000 and another \$150,000 outstanding between 180 and 364 days. Some of these delinquencies date back to the old legacy system and some have been written off. Ms. Doran noted most of the responsibility fell to the individual departments to bill the Educational Foundation. She said a new process was put in place to reconcile these differences and to ensure a timely follow-up.

Management agreed to implement AAS's recommendations.

Trustee Fennell said he thought the Banner System would provide quicker notice of delinquencies. Ms. Samuel explained processes in place to address delinquencies.

C. Tracking Report

Ms. Doran said the Tracking Report showed the audits AAS was following up on. The report's summary table showed there were 32 outstanding recommendations when the committee met in March 2017, with five of those recommendations implemented, 15 not yet due and 12 deferred. Details of the deferred recommendations, she said, were provided in the report.

Trustee Fennell expressed his concern that some outstanding recommendations dated back to 2015 and 2016. Ms. Doran said AAS was actively working with management to resolve those recommendations.

V. Audit and Compliance Committee Matrix Review

Ms. Doran informed the committee an updated matrix had been provided on the Board Portal. She said the committee had completed all business items listed for FY 2016-17.

Chairman Smith thanked Ms. Doran for her informative presentation.

VI. Other Matters

Chairman Smith called for any other matters to come before the committee. There were none.

**Motion for Executive Session**

Chairman Smith said there was a need to receive legal advice appropriate for discussion in Executive Session. He called for a motion to enter Executive Session. Mr. Whittle so moved and Mr. Cofield seconded the motion. The vote was taken and the motion passed.

Chairman Smith invited President Pastides, Secretary Heath, members of the President's Executive Council, Dr. Grant, Dean Haj-Hariri, Mr. Lordo and Ms. Doran 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, Chairman Smith called for the meeting to adjourn at 3:30 p.m.

Respectfully submitted,

J. Cantey Heath, Jr.  
Secretary