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University of South Carolina
BOARD OF TRUSTEES

Audit and Compliance Committee

June 8, 2018

The Audit and Compliance Committee of the University of South Carolina Board of Trustees met at 10:00 a.m. on Friday, June 8, 2018, in the Alumni Center's C. Edward Floyd Boardroom.

Members present were: Dr. C. Dorn Smith III, Chairman; Mr. Chuck Allen; Mr. J. Egerton Burroughs; Mr. Thomas C. Cofield; Ms. Rose Buyck Newton; Mr. Charles H. Williams; and Mr. John C. von Lehe Jr., Board Chairman. Mr. Tommy Preston Jr. and Mr. Mack I. Whittle Jr. were absent.

Other Board members present were: Mr. Mark W. Buyck Jr; 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: USC Columbia Faculty Senate Chairman Marco Valtorta and USC Columbia Student Government President Taylor Wright.

Others present were: President Harris Pastides; Secretary J. Cantey Heath Jr.; General Counsel Walter "Terry" H. Parham; Provost Joan Gabel; Chief Operating Officer Edward L. Walton; Chief Financial Officer Leslie Brunelli; USC Advancement Team Leader Paula Harper Bethea; Vice President for Human Resources Chris Byrd; Chief Communications Officer Wes Hickman; Chief Audit Executive Pam Doran; Athletics Director Ray Tanner; University Treasurer Pat Lardner; USC Beaufort Chancellor Al Panu; Palmetto College Chancellor Susan Elkins; USC Upstate Chancellor Brendan Kelly; Executive Director for the Office of Economic Engagement William D. "Bill" Kirkland; Senior Associate Vice President for Student Affairs and Academic Support Stacey Bradley; Associate Vice President and Chief of Police Chris L. Wuchenich; Associate Vice President and Chief Information Security Officer James Perry; Associate Provost for Academic Programs Tena Crews; USC Columbia Budget Director Joe Sobieralski; Director of Audit & Advisory Services Glenn Murray; Office of Equal Opportunity Programs Director Clifford Scott; Chief Financial Officer, Athletics Department, Jeff Tallant; Senior Associate Athletics Director Judy Van Horn; Senior Associate Athletics Director for Academics and Student Development Maria Hickman; Risk Management Director, Division of Law Enforcement and Safety, Brian Hann;

Director of State Government Relations Derrick Meggie; Assistant Director of IT Audit, Audit & Advisory Services, Roscoe Patterson; Audit Manager, Audit & Advisory Services, John Winn; Executive Director for Strategic Initiatives Jack Claypoole; USC Aiken Executive Vice Chancellor for Academic Affairs Jeff Priest; USC Aiken Vice Chancellor for Finance and Administration Cam Reagin; University Faculty Athletics NCAA/SEC Representative Valinda Littlefield; University Athletics Advisory Committee Chairman Deborah Brosdahl; USC Lettermen's Association President Mike Ragin; Athletics Department student intern Evan Katz; Cynthia Lister, wife of Trustee Toney Lister; Brian D'Amico with Elliott Davis; Andrew Laws with Huron Consulting Group; University Technology Services Production Manager Joe Woodard; 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 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 introduced Mr. Lucas Daprile with *The State* newspaper; Mr. Paul Harris with WLTX-TV; and Mr. Rodney Welch with the *Free Times*.

Chairman Smith called for a motion to enter Executive Session for legal advice. Mr. Burroughs so moved and Mr. Cofield seconded the motion. The vote was taken and the motion carried.

Chairman Smith invited the following persons to remain: President Pastides, Secretary Heath, the Faculty Representative and Student Representative to the Board, Members of the President's Executive Council, Ms. Doran, Mr. Wuchenich, Mr. Hann, Ms. Bradley, Mr. Sobieralski, Mr. D'Amico and Mr. Laws.

Executive Session

Return to Open Session

II. Designated Funds FY 2018-19 Budget

Chairman Smith called on Ms. Brunelli, who 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 exempt from the state's procurement code. She noted that in prior years the Board adopted only the USC Columbia Designated Funds Budget at the Audit and Compliance Committee meeting in compliance with University Policy BTRU 1.14. As a result of pending policy revisions for consideration later in the meeting, budgets for each system campus designated funds are now included in the 2019 fiscal year Board of Trustees budget document, Ms. Brunelli said.

The USC Columbia campus 2019 fiscal year total designated expenditures request is \$5,244,400. Of that amount \$4,651,500 is allocated to University scholarships, an increase of \$1,250,000 over the prior year to accommodate the increasing size of the undergraduate student population. Designated funds in University "R" accounts are requested to be \$592,900. This is an increase of \$12,500 over the original 2018 budget, but a reduction of \$37,500 over the revised 2018 budget. University development functions and commencement will receive budgeted increases.

A total of \$387,300 in designated funds is budgeted for the comprehensive campuses and Palmetto College campuses, comparable to expected current year expenditures. Ms. Brunelli stated each campus designated fund budget: USC Aiken - \$98,300; USC Beaufort - \$140,000; USC Upstate - \$100,000; USC Lancaster - \$35,000; USC Salkehatchie - \$5,000; USC Sumter - \$7,000; and USC Union - \$2,000.

Chairman Smith called for a motion to recommend the FY 2018-19 Designated Funds Budget to the Executive Committee for inclusion in the University’s FY 2018-19 Budget. Mr. Williams so moved. Mr. Burroughs seconded the motion. The vote was taken and the motion carried.

III. Enterprise Risk Management

Chairman Smith called on Brian Hann, Director of Enterprise Risk Management & Insurance, for a status update on the University’s Enterprise Risk Management (ERM) Program. Mr. Hann said at prior meetings, the committee was presented an overview of the program, which uses the International Standards Organization (ISO) as guidance, and the initial organizational leadership.

In 2016, USC participated in a Texas Tech University research project comparing 22 ERM systems and scored the highest of all participating institutions; and in 2018, no major or minor non-conformances were identified in an external ISO audit, Mr. Hann reported.

Mr. Hann said the ERM Executive Oversight Committee adopted the high priority risk areas identified by Audit and Advisory Services (AAS) in 2014 and in 2017. In the past two years, comprehensive ERM Program annual reports were submitted to the committee. The reports include the expanding scope and structure of the program and summarize the specific risks, current controls, controls being implemented, leading and lagging indicators. Of the 480 risks on the ERM risk register, 21 were selected for a more comprehensive reporting to the Executive Oversight Committee. A copy of a summary of the report was included in the meeting materials. Mr. Hann said in 2018, a dashboard report was developed to track and monitor selected risks on a quarterly basis.

Mr. Hann concluded his presentation by noting the ERM Program's future implementation plans, which include updating risk registers annually, continuing to monitor selected risk reports, strengthening organizational structure by adding additional risk areas, and adopting newly revised ISO standards.

Chairman Smith said Mr. Hann's report was received as information.

IV. Audit & Advisory Services

Chairman Smith called on Ms. Doran to present.

A. University Risk Assessment and Audit Plan FY 2018-19

Ms. Doran said Audit & Advisory Services (AAS) did an abbreviated version of the risk assessment to ensure audits planned for fiscal year 2019, capture the most current risks of the University. She said annual components, including financial aid and research compliance, were added to the plan following consideration of the risk assessment. A copy of the FY 2018-19 Audit Plan was provided in the meeting materials.

Chairman Smith called for a motion to approve and forward the University Risk Assessment and Audit Plan FY 2018-19 to the Executive Committee for its review and approval, as required by Board of Trustees Policy 1.06. Mr. Williams so moved. Mr. Burroughs seconded the motion. The vote was taken and the motion carried.

B. FY 2018-19 Proposed Audit & Advisory Services Budget

Ms. Doran requested an additional \$200,000 to hire an IT Audit Manager and to hire student interns as needed. The committee approved the new position at its March 2018 meeting.

Chairman Smith called for a motion to approve the FY 2018-19 Audit & Advisory Services Budget as presented, and to recommend it to the Executive Committee for inclusion in the University's FY 2018-19 Budget. Mr. Williams so moved and Mr. Burroughs seconded the motion. The vote was taken and the motion carried.

Trustee Burroughs asked Ms. Doran if she had adequate funds to meet AAS responsibilities. Ms. Doran said yes and that she annually reviews AAS resources to assure the department is properly staffed. She provided the committee benchmarking graphs comparing AAS's fiscal year budget and total audit employees to other SEC schools.

C. Department Metrics

Ms. Doran said establishment of department metrics came from AAS's self-assessment, conducted in preparation for the quality assurance review, to measure annual performance. The metrics are presented in a balanced scorecard format whereby objectives are developed and measured for the Audit and Compliance Committee, audit clients, audit processes, and capabilities and innovations of the AAS staff. The results will be provided in a dashboard format. A copy of the metrics and a sample dashboard were included in the meeting materials.

Trustee von Lehe asked Ms. Doran for an update on the independent external audit of AAS. Ms. Doran reported that, the prior week, four external university audit professionals conducted the audit on campus. The audit report will be provided to Chairman Smith. She plans to present it to the full committee, at its meeting on August 17, 2018.

Chairman Smith said this document was provided as information.

D. Status of Quality Assurance Review Self-Assessment Recommendations

Ms. Doran deferred to Mr. Murray who reported three recommendations had been implemented. The first, to strengthen the committee's charter (BTRU 1.06) was accomplished on October 12, 2017, with Board approval of revisions to include recommended elements. The second called for an AAS self-assessment and the development of Key Performance Indicators (KPI) to provide measurable value to demonstrate how effectively AAS achieves its objectives.

Mr. Murray said the third recommendation, for an annual assessment of the Audit Plan for currency, was accomplished by AAS meeting with several members of the University's administrative executive leadership, as well as the committee's chairman, in May 2018, to discuss whether changes to the 2018-19 Audit Plan were warranted due to emerging or changing risks.

Chairman Smith said Mr. Murray's report was provided as information.

V. Internal Audits/Reviews

A. Laboratory Safety Audit

Mr. Murray said laboratory safety is a high priority risk area. AAS conducted a risk assessment on the University's laboratory safety processes in order to facilitate the identification and

assessment of potential risks impacting the operations and processes under examination, as well as to identify existing mitigating controls.

The audit scope was primarily limited to the operational activities associated with the University's Environmental Health and Safety (EH&S) laboratory safety programs for the calendar year 2017:

- Assessed controls surrounding laboratory space, including EH&S's coordination with the University's Facilities Management department for new laboratory projects and requests for laboratory reconfiguration; and reviewed the EH&S laboratory decommissioning process and its oversight of unassigned laboratories.
- Evaluated controls surrounding EH&S's laboratory safety programs, including a review of the laboratory inspection, equipment calibration, and laboratory incident investigation processes.
- Assessed oversight provided by the University's special advisory committees surrounding biological, chemical, and radiation safety.
- Reviewed controls surrounding access to the University's Category 2 radioactive material used for research purposes.

AAS concluded laboratory safety risks were properly managed in the scope of the review, other than three exceptions noted in the audit. The first area for improvement called for the re-establishment of the Chemical Safety Committee, and efforts to do so Mr. Murray reported, were underway. Secondly, AAS recommended EH&S establish a formal process to escalate overdue corrective action plans to appropriate deans and/or department chairs. EH&S is implementing a web-based overdue corrective action plan report to send to department chairs. EH&S anticipates having a new Research Safety website available by February 2019 to address the third recommendation, improvement of "incident and near miss reporting."

Trustee Cofield questioned how the audit could state that laboratory safety risks were being "properly managed," when three recommendations for improvement were made. Mr. Murray and Chief Wuchenich responded that the recommendations address low risk areas.

B. IBM/USC Application Management Services Contract Compliance Audit

Mr. Patterson said the 10-year, \$70 million IBM-USC Application Management Services Contract, effective since December 1, 2014, consists of two major components:

- Development of the Application Management Services Center of Applied Innovation, intended to provide IT application services for companies in and around South Carolina. (The Horizon II facility located on the southeastern corner of Blossom and Assembly streets)
- Outsourcing of certain University information technology services to IBM: development, maintenance, and support for a finite list of applications and interfaces.

He said the scope of the audit was limited to one component, the outsourced support and related activities for the calendar year ending December 31, 2017, not the development of the center. AAS conducted a

review of compliance with the contract to gain a sufficient understanding of contractual terms that describe IBM's scope of IT systems support and to assess IBM's adherence to the terms outlining IT systems support. According to the contract, there are 14 core application areas the University outsourced to IBM for support, including Banner and PeopleSoft.

Mr. Patterson said AAS performed testing to determine if IBM is resolving customer requests and incidents, as described within the service level agreement section of the contract; and reviewed the Overall Transition Plan and Applications Support Control Plan to determine if the transfer of responsibilities occurred as intended. Review of the transition of support from the University to IBM focused on four plans: Human Resources Transition; Services Transition; Application Transition; and Facilities Planning.

Mr. Patterson said AAS determined IBM and the University's Division of Information Technology (DoIT) was properly managing resources and related risks in accordance with University and departmental policies, within the scope of the audit. The contract calls for a 90% conformance goal for fulfilling work requests through ServiceNow. The audit revealed an 88% conformance rate, which he said was in line with the contract. However, final deliverables illustrating execution of the Human Resources Transition plan were requested by AAS, but not provided. Also, the Facilities Plan was not established when it was determined there was not an immediate need to move University staff to the Horizon Building. Mr. Patterson commended DoIT for proactively implementing a customer satisfaction survey tool, prior to the completion of the audit.

Dr. Valtorta asked if University personnel transferred to IBM were surveyed as to their satisfaction with the transfer process, and if so what were the survey results. Mr. Patterson responded that personnel transfer was outside the purview of the audit; therefore, the employees were not surveyed as to their satisfaction with the transfer.

Chairman Smith said Mr. Patterson's report was provided as information.

C. IT Mainframe Systems Audit

Mr. Patterson provided a brief history of the University's mainframe computers, noting installation of the first one in the early 1970s was considered state-of-the-art. He said following the personal computing revolution, the availability of commercial enterprise products, and the cost to upgrade and maintain an outdated system, the University began transitioning away from a mainframe.

Mr. Patterson said the audit scope was primarily limited to the operational activities related to the University mainframe operated by DoIT for the fiscal year ending 2018. The audit procedures and objectives were designed to obtain and document a sufficient understanding of processes and controls

surrounding mainframe day-to-day operations, and to review the plans and progress for decommissioning the mainframe and supporting services.

Following questions about critical functions supported by the mainframe, Ms. Doran clarified DoIT's focus was to move all remaining functions and historical data off the mainframe and to decommission it. She said the mainframe is currently supported by the University's staff, not IBM, and it is outdated and costly to maintain.

Mr. Patterson said based on a risk assessment, the following areas were determined to be of significant importance and/or of substantial risk to the University: administration of plans to replace or retire business functions depending on the mainframe; mainframe disaster recovery planning and testing; and mainframe-related risk identification and mitigation. AAS determined DoIT was properly managing its resources and related risks in accordance with University and departmental policies, within the scope of the audit, with the exception of the recommendations noted in the report.

Mr. Patterson discussed DoIT's response to AAS's audit recommendations. By December 2018, DoIT anticipates completing a user access review of the most prevalent accounts to validate active mainframe user accounts and de-activate those identified as not necessary. The user access review will be conducted in phases due to the complexity of the system. Instead of investing any additional effort into building a disaster recovery plan, DoIT believes the best risk mitigation strategy is to concentrate its efforts on migrating data and processes off of the mainframe through the Human Resources and Payroll Project and the Mainframe Decommission Project. DoIT is in the process of formalizing a communication plan, to be completed by September 2018. The plan will include focused communication to data owners about when data migrations need to be complete. The effort to migrate required enterprise historical mainframe data will occur in a two-year phased approach. Mr. Patterson concluded by commending DoIT for identifying the critical areas impacted by the mainframe.

Chief Information Security Officer James Perry responded to a question from Trustee Newton by explaining safeguards were in place to address data maintained on the mainframe during the decommissioning process.

Chairman Smith said Mr. Patterson's report was provided as information.

D. Tracking Report

Ms. Doran reported five of the 30 audit findings noted in March 2018 had been implemented. Of the remaining 25 findings, 13 were overdue, and efforts were underway to address the

concerns in the remaining findings. Ms. Doran responded to Trustees' questions regarding specific findings.

Chairman Smith said Ms. Doran's report was provided as information.

VI. Board of Trustees Policy Revisions

A. BTRU 1.14 University Designated Funds

Chairman Smith called on Ms. Brunelli. She said although BTRU 1.14 was recently revised, additional amendments were needed to address Comprehensive campuses and Palmetto College campuses and to clarify the sources of designated "R" funds that may be used. Designated funds are exempt from procurement restrictions, she noted.

Ms. Brunelli said the amendments include: the addition of food service contract and ATM commissions to "R" funds; clarification that USC Columbia uses all net proceeds from the bookstore for academic scholarships; clarification of the University System "athletic venue concessions;" and stating that the Audit and Compliance Committee will annually review and approve each campus' designated funds budget.

Chairman Smith called for a motion to recommend full Board approval to update BTRU 1.14 University Designated Funds policy, as presented by Ms. Brunelli and described in the materials posted on the Board Portal. Mr. Burroughs so moved and Mr. Williams seconded the motion. The vote was taken and the motion carried.

B. BTRU 1.15 University Personnel Expenditure Policy

Chairman Smith said consideration of amendment to this policy was deferred.

VII. Audit and Compliance Committee Matrix Review

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

Chairman Smith said Ms. Doran's report was provided as information.

VIII. Other Matters

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

IX. Adjournment

Chairman Smith declared the meeting adjourned at 11:48 a.m.

Respectfully submitted,

J. Cantey Heath, Jr.
Secretary