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University of South Carolina
BOARD OF TRUSTEES

Audit and Compliance Committee

August 17, 2018

The Audit and Compliance Committee of the University of South Carolina Board of Trustees met at 10:00 a.m. on Friday, August 17, 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. Mack I. Whittle Jr.; Mr. John C. von Lehe Jr., Board Chairman; and with Mr. Charles H. Williams joining by telephone.

Other Board members present were: Mr. Mark W. Buyck Jr; Mr. Robert F. Dozier Jr.; Mr. A. C. "Bubba" Fennell III; Dr. C. Edward Floyd; 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 Strategic Advisor David Seaton, 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; Vice President for Student Affairs Dennis A. Pruitt; Chief Advancement Officer and Senior Advisor to the President Paula Harper Bethea; Vice President for Information Technology Doug Foster; Vice President for Human Resources Caroline Agardy; Vice President for Facilities and Transportation Derrick Huggins; President & Chief Executive Officer of University Foundations Jason Caskey; Chief Communications Officer Wes Hickman; Athletics Director Ray Tanner; Chief Audit Executive Pam Doran; USC Aiken Chancellor Sandra Jordan; USC Beaufort Chancellor Al Panu; Palmetto College Chancellor Susan Elkins; USC Upstate Chancellor Brendan Kelly; University Treasurer Pat Lardner; University Controller Mandy Kibler; Director of Audit & Advisory Services Glenn Murray; Audit Manager, Audit & Advisory Services, Kenneth Sexton; IT Audit Manager, Audit & Advisory Services, Richard Stingel; Executive Director for the Office of Economic Engagement William D. "Bill" Kirkland; USC Director of Public Relations Jeff Stensland; Director of State Government and Community Relations Derrick Meggie; Director of Government Relations Craig Parks; Executive Director for Strategic

Initiatives Jack Claypoole; Office of Equal Opportunity Programs Director Clifford Scott; USC Aiken Executive Vice Chancellor for Finance and Administration Cam Reagin; USC Union Dean John Catalano; USC Beaufort Chief Information Officer Eddie King; USC Beaufort student Emani Pressley; Virginia Tech Director of Internal Audit Brian Daniels; 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 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 Lucas Daprile with *The State* newspaper in Columbia.

II. Internal Audits/Reviews

Chairman Smith called on Ms. Doran to present.

A. NCAA Rules Compliance Audit Report

Ms. Doran called on the Director of Audit & Advisory Services (AAS), Mr. Glenn Murray. He said the NCAA requires member institutions to develop and implement policies and procedures, as well as individual compliance systems, for specific areas to ensure compliance with NCAA rules. Therefore, AAS incorporates NCAA Rules Compliance reviews into the annual audit plans. AAS's approach, he 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 for textbooks and supplies, and eligibility certification for transfer student-athletes. Mr. Murray said the NCAA Bylaws allow institutions to provide student-athletes financial aid to cover the actual cost of required course-related books. Mr. Murray reported no violations were found, and that overall, these areas were well managed through multiple checks and balances, with the oversight of compliance being performed by OCS. However, AAS made one recommendation to strengthen the textbook distribution process regarding the purchase of course-required materials from third-party vendors. The OCS responded by modifying process forms to require Athletics Department verification attesting that the textbooks and supplies are course-required.

Chairman Smith stated the report was received as information.

B. PeopleSoft Travel and Expense Module Audit Report

Mr. Murray said the audit was limited to the operational activities associated with the conversion from a manual to an automated process of the new PeopleSoft Travel and Expense module and efficiency of the new process, which was implemented in late 2017 and phased in through the first six months of 2018. The Travel Office is housed within the Controller's Office.

Mr. Murray reported no violations were found and that overall, the Travel team is properly managing the process in accordance with University policy and procedures and state regulations. However, AAS made one recommendation related to the travel approval form. During the course of the audit, AAS surveyed users of the *Travel and Expense Authorized/ Ad Hoc Approval Signature Form (Ad Hoc Form)*, developed to ensure supervisors and managers were aware of and had authorized employee travel. Survey feedback indicated the Ad Hoc Form delays the process for submission of expense reports as it is the only manual step remaining in the process. AAS recommended elimination of the manual step and making certification language more prominent in the module. The Controller's Office agreed to review the functionality of the new module; considering options to make recommended changes.

Chairman Smith stated the report was received as information.

C. University Plane Review

Ms. Doran said AAS conducted an analysis of use of the University's plane for the past five years (April 2013 – April 2018) and found appropriate use and efficiency. Additionally, AAS reviewed the adequacy of procedures and guidelines for use of the plane, while comparing them to other universities' policies.

Ms. Doran said the review did not indicate excessive or imprudent use of the plane. She added, that while a policy on the use of a university plane does not appear to be common among other universities, it does establish expectations and helps to ensure compliance with university guidelines. Therefore, AAS recommends a policy be developed. She said the University's Flight Operations departmental website provides general procedures and guidelines for making reservations, cost, seating requirements and approvals. The formal policy, she said, should be developed using the existing guidelines and should include the following additional requirements:

- Recorded justification for use of the plane, including but not limited to "opportunity or productivity costs necessitating the use of the plane such as the trip includes visiting multiple cities in a short timeframe, commercial airlines do not serve destination city, commercial air travel interferes with University obligations, and Athletic transportation is paid from Athletic funds."

- Expansion of the approval process for use of the plane to include the Board Chairman's approval for the University President's travel.
- Establishment of protocol and approval for non-university personnel.

Ms. Doran noted the administration agreed with the recommendations and will establish a policy for use of the University plane.

Chairman Smith stated the report was received as information.

D. Tracking Report

Ms. Doran said the Tracking Report summary table showed there were 32 outstanding recommendations when the committee met on June 8, 2018, with seven of those recommendations implemented, 12 not yet due and 13 deferred. Details of the deferred recommendations, she said, were provided in the report.

Trustee Fennell expressed his concern that some audit issues dated back to 2015 and he suggested the committee establish a two-year deadline to reexamine outstanding audit findings. The committee agreed with his suggestion. Chairman Smith said he had no objection to the suggestion, but noted that some of the outstanding issues were related to the implementation of PeopleSoft.

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

III. Audit & Advisory Services Annual Report

Chairman Smith called on Ms. Doran who said AAS's most significant accomplishment this year was conformance with the Institute of Internal Auditors (IIA) Standards. Trustee Fennell commended Ms. Doran and noted she was the first USC Audit Director to obtain the conformance.

Ms. Doran provided a chart of AAS activities and the percentage of time dedicated to each: scheduled audits 52%; management requested advisory 16%; administrative audit support 16%; professional development 8%; investigations 7%; training the University community 1%.; noting that a total of 76% of AAS's efforts were focused on providing assurance and advisory services in performing audits, investigations, advisory reviews and internal control training.

A significant AAS accomplishment was managing conflict of interest. This was achieved by drafting an overall University policy, establishing a staff online disclosure system, training, improving control functions, and strengthening the faculty process.

Ms. Doran reported AAS employee satisfaction was a high priority to retain personnel. Topping the list for employee satisfaction activities was the extensive office renovation; compensation

benchmarking; challenging projects and leadership opportunities; and becoming fully staffed (10 positions) and highly credentialed.

Ms. Doran noted AAS's FY 2017-18 budget actual came in \$5,500 below the projected budget. The reason for the difference was due to two staff vacancies for six months. Those positions are now filled.

AAS is currently working on four audits listed in the FY 2018-19 Audit Plan that the committee approved in June 2018, Ms. Doran reported.

Ms. Doran discussed AAS's FY 2018-19 scorecard that lists the objectives and measures for the department. The scorecard focuses on four major areas: assurance to the committee; value to the audit clients; internal procedures; and department capabilities and innovation.

Chairman Smith stated the annual report was provided on the Board Portal and received as information.

IV. Audit and Compliance Committee

A. Board Policy Review

1. BTRU 1.20 Dishonest Acts and Fraud
2. BTRU 1.24 Internal Control Policy

Ms. Doran stated that upon her annual review of Board policies, according to the committee charter, she updated the policies to comply with the University's new policy format. Since there were no significant changes, no action was required.

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

B. 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.

C. Directors and Officers Insurance Review

Chairman Smith called on Mr. Parham who with Ms. Doran, Director of Risk Management & Insurance Brian Hann were asked to review the coverage limits of the University's \$5 million Directors and Officers (D&O) Insurance coverage to determine if it was sufficient. Mr. Parham said D&O policies are excess policies that kick-in only after coverage under the University's general liability insurance policy has been exhausted.

Mr. Parham said despite the overlapping coverage, there are a few matters the D&O policy covers that are not covered by the University's tort liability policy – most importantly, copyright or trademark

infringement claims, anti-trust claims and plagiarism claims. For that reason, and in light of the relatively low cost of the premium, D&O coverage should be maintained.

Mr. Parham said Mr. Hann surveyed 21 institutions. For purposes of coverage comparisons, participating institutions were divided into three major categories and with the following results: 12 do not purchase D&O coverage and rely solely on state tort law protections and state-provided general liability insurance; three rely on state tort laws and state-provided general liability insurance but purchase a standalone D&O policy to supplement these protections; and six do not rely on state tort laws (may or may not purchase state-provided general liability insurance) and purchase a hybrid insurance policy called Educators Legal Liability (ELL).

Mr. Parham reported the coverage limits of the in-state institutions: Clemson University and the Medical University of South Carolina (MUSC) - \$20 million (MUSC's policy also covers the hospital board); Coastal Carolina and College of Charleston - \$10 million; Citadel and USC - \$5 million; Francis Marion University - \$1 million; and South Carolina State University \$500,000.

Mr. Parham noted that during the review Clemson University stated its coverage was increased from \$5 to \$20 million, which was a board "comfort level" decision.

Mr. Parham said he, along with Mr. Hann and Ms. Doran, recommend the Board increase, at a minimum, the University's D&O insurance coverage to \$10 million. The University currently pays \$39,000 in premiums for \$5 million coverage and the additional \$5 million coverage would cost \$25,000 bringing the annual total premium cost to \$64,000. Ultimately, he said, the decision to increase coverage would be a board comfort level issue.

Trustee Burroughs said he did not like to see the University with less coverage than comparable in-state schools and recommended an increase to \$20 million D&O coverage.

Board Chairman von Lehe asked the cost of \$20 million coverage. Mr. Parham responded the increase would be \$75,000, bringing the new annual premium to \$114,000. Trustee Newton asked if the additional funds to increase the policy were included in the current budget. Ms. Brunelli responded they were not included.

Chairman Smith called for a motion to increase the University's D&O Insurance Policy coverage from \$5 million to \$20 million. Mr. Burroughs so moved and Mr. Whittle seconded the motion.

Chairman Smith called for comments and Trustee Cofield said he would be more comfortable with an analysis of whether \$20 million coverage was necessary, especially given the University had not used the insurance coverage to-date.

Chairman Smith called for a roll-call vote. Voting in favor of increasing the University's D&O insurance coverage to \$20 million were Mr. Burroughs, Mr. Dozier, Mr. von Lehe and Mr. Whittle. Opposed were Mr. Allen, Mr. Cofield and Ms. Newton. Mr. Williams had dropped from telephone participation. The motion passed. Chairman Smith said this item of business would move forward to the full Board for consideration.

V. Quality Assurance Review Reports

Chairman Smith called on Mr. Brian Daniels, Virginia Tech Director of Internal Audit. Mr. Daniels said he was a member of the team which performed AAS's Quality Assurance Review (QAR). Other peer review team members, he said, included Auburn University Associate Vice President for Audit, Compliance & Privacy Kevin Robinson (team leader); University of Tennessee Chief Audit & Compliance Officer Sandy Jansen; and University of North Carolina System Vice President for Compliance and Audit Services S. Lynne Sanders.

Mr. Daniels said IIA standards call for a self-assessment and QAR every five years. He said he was happy to report the team concurred with AAS's self-assessment and therefore, rated AAS as "generally conforms" to the IIA International Professional Practices Framework. This is the highest rating possible.

Based on the QAR, the team made the following recommendations:

- The President consider adding the Chief Audit Executive (CAE) to the president's cabinet.
- Consideration be given to expanding risk assessment interviews downward in the organization through the use of more of the AAS staff.
- Information Technology Auditing: co-source some IT audits; develop and add continuous monitoring/data analytics to the AAS portfolio; continue to monitor staff size with respect to IT auditors; and assess options for mapping IT audit planning to an existing IT framework.
- Periodically evaluate all system campuses as to the need for a full-time, on-campus auditor (currently all audit staff are based in Columbia).

Trustee Whittle asked about the status of the recommendations. Chairman Smith said the committee could implement most of the recommendations, but the President decides the members of his cabinet (Executive Council). President Pastides responded there were advantages but also concerns about adding the CAE, which he along with the Board would need to consider since the position reports directly to the Board.

Trustee Buyck asked how the peer assessment team was selected. Ms. Doran said she suggested some colleagues who were also members of the Association for College and University Auditors and presented a list of names to Chairman Smith for his approval.

Chairman Smith thanked Mr. Daniels for his time and effort and said the QAR and recommendations report were included in the meeting materials and provided as information.

VI. External Audit Services

Chairman Smith said the University's external audit contract with Elliott Davis will expire at the conclusion of the 2018 fiscal year audit cycle. Also, it had been brought to his attention that the 12-year contract period was the longest in the state. The original five-year contract had been extended several times. Therefore, he recommended a Request for Proposal (RFP) be developed to solicit a new external audit firm and noted that the RFP would not affect the separate contract the University has with Elliott Davis for the development and implementation of the new budget model.

Chairman Smith called for comments. Trustee Burroughs said he hoped the RFP process would consider a national firm to reflect the University's growth. Trustee Fennell agreed an RFP should be issued.

Trustee Whittle recommended the committee appoint a sub-committee to oversee the University's new budget model and that Chairman Smith chair the sub-committee. Trustee von Lehe asked Mr. Parham for clarification on appointment of a sub-committee. Mr. Parham said the committee could appoint a sub-committee from the committee membership. Chairman Smith said according to the Board Bylaws, since he had served two full consecutive terms as committee chair, a new chair would be elected at the biennial committee reorganization later in the day. He said he wished to remain a member of the committee.

Chairman Smith called for a motion to instruct staff to develop an RFP for the University's external audit services. Mr. Whittle so moved and Mr. Burroughs seconded. The vote was taken and the motion passed.

Chairman Smith said there was a personnel matter, the annual performance evaluation of the Chief Audit Executive, 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 Trustees, President Pastides, and Secretary Heath to remain.

Executive Session

Return to Open Session

VI. Chief Audit Executive Annual Performance Appraisal

Chairman Smith called for a motion to recommend the full Board approve a 2% salary increase for Ms. Doran. Mr. Burroughs so moved and Mr. Whittle seconded the motion. The vote was taken and the motion carried.

VII. Other Matters

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

VIII. Adjournment

Chairman Smith declared the meeting adjourned at 11:30 a.m.

Respectfully submitted,

J. Cantey Heath, Jr.
Secretary