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University of South Carolina
BOARD OF TRUSTEES

Audit and Compliance Committee

October 19, 2018

The Audit and Compliance Committee of the University of South Carolina Board of Trustees met at 10:00 a.m. on Friday, October 19, 2018, in the Alumni Center's C. Edward Floyd Boardroom.

Members present were: Ms. Rose Buyck Newton, Chairman; Mr. Chuck Allen; Mr. J. Egerton Burroughs; Mr. Robert F. Dozier Jr.; Dr. C. Dorn Smith III; Mr. Thad H. Westbrook; Mr. Mack I. Whittle Jr.; Mr. Charles H. Williams; Mr. John C. von Lehe Jr., Board Chairman; and Mr. Hubert F. Mobley, 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. Toney J. Lister; Mr. Miles Loadholt; Ms. Molly M. Spearman; and Mr. Eugene P. Warr Jr.; with Ms. Leah B. Moody joining by telephone.

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; 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 Research Prakash Nagarkatti; Vice President for Human Resources Caroline Agardy; Vice President for Facilities and Transportation Derrick Huggins; President and 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; College of Arts and Sciences Dean Lacy Ford; College of Education Dean Jon Pedersen; College of Pharmacy Dean Stephen J. Cutler; Associate Vice President for Finance Kelly Epting; Executive Director for the Office of Economic Engagement William D. "Bill" Kirkland; Director of Audit & Advisory Services Glenn Murray; Director of Financial Reporting, Controller's Office, Sandy Smith; Assistant Director of IT

Audit, Audit & Advisory Services, Roscoe Patterson; Assistant Controller Lindsay Anastasio; University Budget Director Joe Sobieralski; Director of Public Relations Jeff Stensland; Director of State Government and Community Relations Derrick Meggie; 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; Assistant to the President for System Affairs Eddie King; Palmetto College Faculty Senate Executive Committee Chair Christine Sixta Rinehart; Brian D'Amico with Elliott Davis; Andrew Laws with Huron Consulting Group; University Technology Services Production Manager Matt Warthen; and Board staff members Debra Allen and Terri Saxon.

I. Call to Order

Chair Newton called the meeting to order, welcomed those in attendance and asked all at the table to introduce themselves. She 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 and Hannah Dear with *The Daily Gamecock*.

Chair Newton 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.

Chair Newton invited the following persons to remain: Trustees, President Pastides, Secretary Heath, Mr. Parham, Mr. Walton, Ms. Brunelli, Dr. Nagarkatti, Ms. Doran, Ms. Kibler and Mr. D'Amico.

II. External Audit

– USC System Financial Statement Audit, Fiscal Year 2017-2018

Chair Newton called on Mr. Brian D’Amico, a shareholder with Elliott Davis (ED), who presented the financial statement audit for the year ended June 30, 2018. The auditors completed their work and, based on the audit procedures performed, ED issued an unmodified opinion on the University’s financial statements. An unmodified opinion indicates the University has fairly presented its financial statements in accordance with generally accepted accounting principles (GAAP). Fair presentation in accordance with GAAP is of great importance to the primary users of the University’s financial statements such as bond underwriters and federal granting agencies.

The University’s financial statements are currently in draft form, have been submitted to the State Comptroller General, and will be finalized upon approval by the Board of Trustees. Following the completion of these statements, the University’s financial staff will compile the Comprehensive Annual Financial Report (CAFR) and submit that document to the Government Finance Officers Association prior to the December 31, 2018, deadline.

Mr. D’Amico said during the fiscal year, the University had two events that required a restatement of beginning net position. First, the transition of the Gamecock Club from a University department within Athletics to a discretely presented component unit of the University required a restatement of \$13.5 million. Second, the implementation of Governmental Accounting Standards Board (GASB) 75, which requires other post-employment benefits (OPEB) to be included on financial statements, at \$917.2 million. This OPEB restatement is in addition to the pension liability. The total restatement is a reduction in beginning net position of \$930.7 million.

Mr. D’Amico reviewed the University’s positive Statement of Net Position (Balance Sheet); Statement of Revenues, Expenses and Changes in Net Position (Income Statement); and Statement of Cash Flows.

Trustee Burroughs asked Mr. D’Amico what he saw as the University’s greatest future financial risk and he responded that a continued increased enrollment would affect the financial statement’s bottom line. He said it raises the question of the ability to maintain operations with continued increased enrollment.

Chair Newton stated the report was provided in the meeting materials and received as information.

III. Internal Audits/Reviews

Chair Newton called on Ms. Doran to present.

A. Cybersecurity – State Information Security Standards Audit Report

Ms. Doran said the objective of the audit was to evaluate the processes and controls used by the University Information Security Office (UISO) to support state information security regulation compliance. Audit & Advisory Services (AAS) made one recommendation for UISO to strengthen the action plan component of the self-assessment process by: requiring organizational units to include target implementation dates, task owners, known obstacles in their action plan; and monitoring units' actions and escalating corrective actions when necessary. Management agreed to the recommendations.

Ms. Doran noted the audit was presented in a format that now includes an executive summary in addition to the detailed report. Also, Ms. Doran said Chief Information Security Officer Marcos Vieyra, Division of Information Technology, had returned to the University, having left to work for the state to develop the state security standards.

Chair Newton stated the report was received as information.

B. PeopleSoft Human Capital Management (HCM) Pre-implementation Review – Report I

Ms. Doran said since the implementation review was not complete, Report I provided an update of the areas reviewed thus far: project plan and charter; training and communication strategy; data conversion and system implementation test plans; critical end-user reports available at go-live; and maintenance and resolution of project issues. AAS identified three improvement opportunities with regard to training, payroll reporting capabilities, and the need for the project team to revisit the communication plan to ensure all listed stakeholders are engaged.

Trustee von Lehe asked about the status of the three recommendations and Ms. Doran responded that AAS had just presented the findings to the project team to work on implementing.

Ms. Doran asked Mr. Foster to provide an update on the implementation process. Mr. Foster said the team planned to move the PeopleSoft Human Capital Management (HCM) implementation date back three months from January 1 to April 1, 2019, to improve the “quality of the product” it plans to deliver. Discussion ensued regarding efforts to address AAS's recommendations, and Mr. Foster responded to questions.

Chair Newton stated the report was received as information.

C. Tracking Report

Ms. Doran said the Tracking Report summary table showed there were 31 outstanding recommendations when the committee met on August 19, 2018, and that six of those recommendations were implemented. Of the remaining 25 findings, 10 had extended completion dates and 15 were not yet due. She reported efforts were underway to address the concerns in the remaining findings. Details of the deferred recommendations, she said, were provided in the report.

Ms. Doran said in response to Trustees' prior concerns, she added a category to the Tracking Report to designate recommendations outstanding for longer than two years. This report included two issues in this category: Banner Data Dictionary in the Banner Student Information System Post-Implementation Review and Law Enforcement IT Disaster Recovery in the Emergency Planning Audit. She reported progress was being made on the dictionary and she anticipates it taking another nine months to complete. The Law Enforcement IT Disaster Recovery plan is about 95% complete, with final completion expected in December 2018.

Chair Newton stated the report was received as information.

IV. Conflict of Interest Disclosures Update

The University implemented the conflict of interest disclosure system for supervisors and payment approvers on all campuses on February 7, 2018. Of the 1,692 personnel required to disclose, 99% had complied, with the non-reporting individual on long-term leave, Ms. Doran said. She reported no potential conflicts in 1,592 disclosures (94%); 57 disclosures were yet to be evaluated (3%); and 42 potential conflicts were identified (2%), with 25 related to outside employment and 17 needing a management plan.

Ms. Doran said of the 2,408 faculty required to submit a conflict of interest disclosure 1,893 were found to have no conflict; 417 (17%) had not yet complied; management plans are being established for 21 potential conflicts identified; and 77 submissions are awaiting evaluation. The issue regarding the faculty conflict of interest disclosure process noted in the Tracking Report, Ms. Doran said, is being addressed. The revised process includes additional questions to assist the assessors and it is scheduled to go live in January 2019.

President Pastides asked who determines if there is a conflict of interest and Ms. Doran responded the department chairs for faculty disclosures, with assistance from AAS when requested.

Chair Newton stated the update was received as information.

V. Board Policy Reviews

A. BTRU 1.06, Audit & Advisory Services

B. BTRU 1.18, Conflicts of Interest and Commitment

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 which includes definitions. Since there were no significant changes, no action was required.

Chair Newton said Ms. Doran's report was provided as information.

VI. Audit and Compliance Committee

A. Education – IT Overview

Chair Newton called on Mr. Foster, who said he was asked to provide an overview since IT issues surface in audits.

Mr. Foster said the most basic building block of the University's IT environment are end-user devices: laptop, desktop, smartphone, tablet, printer, and assistant. The three basic components of all the University's computer systems include: disk drives (storage for data); processors (computer capabilities - programs run in processors); and software (applications). Servers normally house specific programs that many users can access. Networks connect computers together and connect computers to the internet. Mr. Foster explained the network connections across Columbia and throughout the State.

Mr. Foster said that if the University moves its data storage to cloud providers, Microsoft being one of those, the network becomes global. Microsoft spent \$15 billion to build its infrastructure and Microsoft Cloud has more than 475 million users. He said the University also has cloud storage contracts with Google and Amazon. In response to questions, Mr. Foster explained that there is some overlap in services offered, but each addresses unique needs. Mr. Foster noted advantages to using cloud data storage: data is backed up in multiple locations; data center security/reliability; data storage and retrieval expertise; data standards compliance; limits specific vendor dependencies; and capacity is virtually unlimited.

Chair Newton stated the overview was received as information.

B. Matrix Review

Chair Newton stated the Matrix, received as information, shows the committee items for this meeting have been completed, except for the Uniform Guidance Audit which has been delayed until the next meeting.

C. Self-Assessment

At Chair Newton's request, Ms. Doran provided the committee a self-assessment form to complete and return by the end of the day.

VII. Other Matters

Chair Newton said she had reviewed the University's Hotline report with Ms. Doran the prior week. She called for any other matters to come before the committee. Trustee Burroughs said in reference to the "Green Diamond Group" property, Burroughs and Chapin had been approached about purchase of the property, which is adjacent to the University. He shared this information since he has a financial interest as a Burroughs and Chapin shareholder.

VIII. Adjournment

Chair Newton declared the meeting adjourned at 12:35 p.m.

Respectfully submitted,

J. Cantey Heath, Jr.
Secretary