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University of South Carolina
BOARD OF TRUSTEES

Audit and Compliance Committee

August 16, 2019

The Audit and Compliance Committee of the University of South Carolina Board of Trustees met at 10:25 a.m. on Friday, August 16, 2019, in the C. Edward Floyd Boardroom at the Pastides Alumni Center.

Members present were: Ms. Rose Buyck Newton, Chair; 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. John C. von Lehe Jr., Board Chair; and Mr. Hubert F. Mobley, Board Vice Chair. Mr. Charles H. Williams was absent.

Other Board members present were: Mr. C. Dan Adams; Mr. A.C. "Bubba" Fennell III; Dr. C. Edward Floyd; Mr. William C. Hubbard; Mr. Richard A. Jones Jr.; Mr. Miles Loadholt; Ms. Leah B. Moody; Ms. Molly M. Spearman; and Mr. Eugene P. Warr Jr.

Also present were Strategic Advisor David Seaton, USC Columbia Faculty Senate Chair Mark Cooper and USC Columbia Student Government President Luke Rankin.

Others present were: President Robert L. Caslen Jr.; Secretary J. Cantey Heath Jr.; General Counsel Walter "Terry" H. Parham; Interim Executive Vice President for Academic Affairs and Provost Tayloe Harding; Senior Vice President for Administration and Chief Operating Officer Edward L. Walton; Vice President for Student Affairs and Vice Provost for Academic Support Dennis A. Pruitt; Vice President for Human Resources Caroline Agardy; Vice President for Information Technology and Chief Information Officer Doug Foster; Athletics Director Ray Tanner; Interim Chief Communications Officer and Director of Public Relations Jeff Stensland; Palmetto College Chancellor Susan Elkins; USC Aiken Chancellor Sandra Jordan; USC Beaufort Chancellor Al Panu; USC Upstate Chancellor Brendan Kelly; University Treasurer Pat Lardner; Chief Audit Executive Pam Doran; University Budget Director Joe Sobieralski; University Bursar Nicole Pressley; College of Arts and Sciences Dean Lacy Ford; Associate Vice President for Administration and Finance and Medical Business Affairs Jeffrey L. Perkins III; Associate Vice President for Finance Kelly Epting; Senior Associate Provost for Inclusion and Chief Diversity Officer

John H. Dozier; Director of Facilities Planning and Programming and University Architect Derek S. Gruner; Executive Director for Strategic Initiatives Jack Claypoole; Office of Research Compliance Director Thomas Coggins; Director of Audit & Advisory Services Glenn Murray; Assistant Director of IT Audit, Audit & Advisory Services, Roscoe Patterson; Audit Manager, Audit & Advisory Services, Kim Dwiggin; Executive Director for the Office of Economic Engagement William D. "Bill" Kirkland; Executive Director of Military Programs and Strategies James E. Smith Jr.; Chief Executive Officer My Carolina Alumni Association Wes Hickman; Director of Government Relations Derrick Meggie; Director of Public Affairs and Advocacy Craig H. Parks; Assistant to the President for System Affairs Eddie King; Assistant University Controller Lindsay Anastasio; Palmetto College Faculty Senate Executive Committee Chair Christine Sixta Rinehart; USC students Robert Buchanan and Matthew Ward; Cynthia Lister, wife of Trustee Toney Lister; Ann Loadholt, wife of Trustee Miles Loadholt; Chernoff Newman Chief Executive Officer Lee Bussell; Elliott Davis shareholders Howie Houston and Brittany Long; Fred Allen with Fred Allen & Associates; Brian Coleman (no affiliation indicated); 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. Secretary Heath confirmed Trustee participation by telephone. Ms. Newton 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.

Chair Newton called on Mr. Stensland, who introduced Lucas Daprile with *The State* newspaper and Emily Carrell with WLTX-TV.

II. Policy Reviews

Chair Newton called on Ms. Doran.

A. BTRU 1.20, Dishonest Acts and Fraud

Ms. Doran recommended changes to BTRU 1.20 to add three definitions: Conflict of Commitment; Conflict of Interest; and University Employees as it applies to the policy. She said the definitions provide clarity to the policy. She responded to Dr. Cooper's questions about the philosophy behind the policy and conflict of interest requirements that apply to faculty.

Chair Newton called for a motion to recommend full Board approval to update BTRU 1.20, Dishonest Acts and Fraud, as presented by Ms. Doran and described in the materials posted on the Board

Portal. Dr. Smith so moved and Mr. Westbrook seconded the motion. The vote was taken and the motion carried.

B. BTRU 1.24, Internal Control Policy

Based on her review, Ms. Doran proposed minor grammatical changes to the policy.

No action was required.

III. Audit & Advisory Services Annual Report

Ms. Doran noted the percentage of time Audit & Advisory Services (AAS) spent on each service activity: 59% on audits; 12% on training and advisory activities; 15% on audit support; 8% on professional development; and 6% on investigations. She noted that not all investigations yield findings; therefore, not all investigations are documented in a report.

Ms. Doran noted audits completed this year, grouped in four categories:

- Compliance: State Information Security Standards; Export Control; NCAA Rules; Payment Card Industry (PCI); Programs Involving Minors; and Title IX
- Financial: Board Office & President's Expenses; PeopleSoft Travel and Expense Module; and Research Accounting
- Business Processes: Enterprise Risk Management; Institutional Data Reporting; Study Abroad Office; Succession Planning; and University Plane Review
- IT: Athletics IT Operations; Identity Management; PeopleSoft Human Capital Management Pre-implementation; WIFI Infrastructure.

Ms. Doran said she discussed in a prior committee meeting the three lines of defense in effective risk management and control. She noted AAS has the advantage of a much larger purview of University business operations than most departments, which allows them to recognize reoccurring themes across the system. The first theme monitoring serves as a second line of defense, such as the Controllers Office or Purchasing. Some of the audits where strengthening monitoring was recommended include: conflicts of interest disclosures and management plans for faculty and staff; HIPAA compliance; laboratory safety; payments – vendor/employee reimbursements; PCI compliance; programs involving minors; purchasing cards; and state security standards.

Ms. Doran said the second theme, lean staffing, is where key positions/functions are “only one person deep.” Mitigating controls that need to be in place are succession planning and documented procedures so that institutional knowledge does not leave with an employee. Mitigating controls to address the third theme working across organizational boundaries (campuses, colleges, and functions) include:

business process efficiencies/effectiveness; sharing best practices, not reinventing the wheel; and solving funding issues with shared resources.

Ms. Doran showed AAS peer benchmarking graphs for budget and staff, which indicated the office is in the middle among SEC peers. She also showed the FY 2018-19 balanced scorecard results, noting AAS achieved all but two of its goals. First, AAS is still assisting management with developing a University Code of Conduct. She said benchmarked content of other universities' Code of Conduct had been gathered, and AAS will assist in review of the material in the new fiscal year. Second, now that the University's three major Enterprise Resource Planning (ERP) systems have been implemented, AAS has contracted with an external firm to assist with data analytics.

Ms. Doran said the FY 2019-20 balanced scorecard target goals include increasing efforts to inform faculty and staff about the University Integrity Line and to proceed with conducting data analytics.

Trustee Mobley asked Ms. Doran if she had the resources to accomplish AAS's goals and she responded yes.

Chair Newton thanked Ms. Doran and said the report was received as information.

IV. Internal Audits/Reviews

A. Payment Card Industry (PCI) Compliance

Chair Newton called on Ms. Doran, who introduced Mr. Patterson to present the PCI audit. He noted Jan Bennett was the lead auditor for the PCI audit.

Mr. Patterson said the purpose of the audit was to assess PCI compliance as it applies to entities that store, process or transmit cardholder data for all University campuses. He reviewed the FY 2018-2019 total number of credit card transactions and dollar value per campus, noting Columbia was the highest with 97,865 transactions totaling \$16,736,549. The University's CFO, Bursar and the CIO are responsible for administering compliance, which is accomplished through: implementation of policies and procedures; oversight of payment facilities; ensuring facilities complete annual self-assessment questionnaires (SAQ); and collaborating with the outside quality security assessor, CampusGuard.

As a result of the audit, AAS determined PCI compliance was properly managed, policies and procedures were current, payment facilities were identified, and the Bursar's Office and offices within the Division of Information Technology took ownership of PCI compliance. Mr. Patterson commended University Bursar Nicole Pressley, CIO Doug Foster and Chief Information Security Officer Marcos Vieyra for being "ideal clients," due to their collaborative effort to improve PCI compliance.

Mr. Patterson discussed four recommendations for improvement noted in the audit: ensure documentation and retention of actions for network security vulnerabilities; develop a follow-up process for responding to CampusGuard's recommendations; ensure service unit payment card applications are properly completed, approved and retained; and establish internal reviews to ensure service units accurately complete SAQs and retain supporting documentation.

Chair Newton thanked Mr. Patterson and said his presentation was received as information. The full audit was provided on the Board Portal.

B. Programs Involving Minors – Comprehensive Universities and Palmetto Colleges

Ms. Doran noted AAS reported on the Columbia Campus Programs Involving Minors Audit in March 2019. The audit scope for the Comprehensive Universities (CU) and Palmetto Colleges (PC) was the same as for the Columbia Campus and included ensuring background checks are performed on program staff; procedures are in place in the event of an emergency; and staff is properly trained.

In the course of the audit, AAS determined there was not an office(s) designated to monitor compliance of programs involving minors for the CU and PC, and that background checks were not consistently completed. As a result of the Columbia Campus audit, the Office of General Counsel is in the process of adding a position to provide oversight and monitoring for the Columbia and System Campuses to include: monitoring for compliance with University policy requirements; ensuring proper registration of programs involving minors; ensuring program staff background checks are performed; ensuring proper staff training; and the development and adherence of program procedures.

Chair Newton said the presentation was received as information and the full audit was provided on the Board Portal.

C. Research Accounting – Report II

Ms. Doran said the first report, issued in March 2019, addressed grant accounting issues related to the PeopleSoft (PS) Finance system implementation and grant procedures and processes. This report includes an update on the status of the grant cleanup project, and the results of additional grant-related procedures reviewed since the first report.

Ms. Doran reported cleanup of grant projects with open Accounts Receivables (AR) as of December 2017 and prior were reviewed and adjusted by the Controller's Office. The USC Federal Draw System account reconciliations were completed and the interface between the University of South Carolina Electronic Research Administration (USCeRA) system and PS Finance was being reviewed.

This audit scope included review of grant setup procedures and federal sponsor draw system reconciliations; verification procedures are being followed; appropriate documentation is retained; and confirmation grants are properly classified (e.g. federal, state, private entity) for grants set up in fiscal year 2017-2018.

Ms. Doran said although AAS determined overall the Grant Setup Process was working as intended, observations for improvement were noted in the audit. Related to the Grant Setup Process, she said the source of funds, in some cases, was not documented as required for federal reporting; the clinical trial cash receipts were received by Sponsored Award Management (SAM), instead of the Controller's Office; and misclassification of funds from federal to state for fiscal year 2016-17 were being addressed. In reference to the USCeRA/PS Finance interface, it was noted that direct and automatic feeds from USCeRA to PS Finance is without an opportunity for review. Project changes made in USCeRA need to be manually entered into PS Finance. Also, sensitive data contained in USCeRA requires greater system security (i.e. multi-factor authentication).

The USC Federal Draw System Reconciliations are complete. However, several grants were identified as having misapplied cash. Adjustments have been made resulting in a net positive remaining balance of \$59,000. The South Carolina Research Foundation (SCRF) Federal Draw Systems are still being reviewed, and since there is some comingling of funds, these reconciliations will affect the net remaining balance, Ms. Doran said. As of August 2, 2019, the SCRF net remaining balance was a negative \$124,000.

Ms. Doran said the next audit scope will include: SCRF Federal Draw System Reconciliations; accounting for USC subcontracts with SCRF; and Higher Education Research and Development (HERD) survey financial reporting.

Chair Newton said the presentation was received as information and the full audit was provided on the Board Portal.

Ms. Doran responded to Trustee Fennell's questions about the current and next Research Accounting Audit reports.

In response to Trustee Adams' questions regarding external review, Ms. Doran deferred to Mr. Houston, who discussed the external auditor's role and functions.

D. Tracking Report

Ms. Doran said the Tracking Report summary table showed there were 30 outstanding recommendations when the committee met on June 7, 2019. Since then, four

recommendations had been implemented. Of the remaining 26 findings, 11 were not yet due and 15 were overdue.

Ms. Doran said currently four audits have findings that have been outstanding for more than two years. Some of those findings, related to the Contract Approval Process, will be addressed with implementation of an online contract system by October 2019.

Trustee Whittle questioned the low percentage (37%) of faculty who submitted required Conflict of Interest forms, that was noted in the College of Engineering and Computing – SysEDA findings. Ms. Doran said this issue was a priority with her and she planned to address improving the percentage with the new Provost, when hired, and with the administration. Discussion ensued regarding enforcement of the faculty Conflict of Interest policy. Interim Provost Harding said efforts to improve faculty communication regarding the Conflict of Interest policy had improved.

Chair Newton said the presentation was received as information and details of the deferred recommendations were provided in the full report provided on the Board Portal.

V. Audit and Compliance Committee Matrix Review

Chair Newton reported the Matrix showed the committee had completed everything planned for this meeting except for a deferred maintenance review, which is scheduled for the committee's October 11, 2019 meeting. Also, she noted the committee continued to monitor the University's Integrity Line. The Matrix was provided on the Board Portal.

Motion to Enter Executive Session

Chair Newton called for a motion to enter Executive Session for legal advice and a personnel matter related to the annual performance evaluation of the Chief Audit Executive. Trustee Smith so moved and Trustee Whittle seconded the motion. The vote was taken and the motion carried.

Chair Newton invited the following persons to remain: President Caslen, Secretary Heath, the Faculty Representative and Student Representative to the Board, Members of the President's Executive Council, Mr. Seaton and Ms. Doran.

With no other matters appropriate for discussion in Executive Session, Chair Newton declared a return to Open Session.

RETURN TO OPEN SESSION

VI. Chief Audit Executive Annual Performance Appraisal

Chair Newton said the appraisal was discussed in Executive Session and no action was required.

VII. Other Matters

Chair Newton called for any other matters to come before the committee.

VIII. Adjournment

Chair Newton declared the meeting adjourned at 11:55 a.m.

Respectfully submitted,

J. Cantey Heath, Jr.
Secretary