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University of South Carolina

BOARD OF TRUSTEES

Audit and Compliance Committee

October 14, 2016

The Audit and Compliance Committee of the University of South Carolina met at 9:00 a.m. on Friday, October 14, 2016, 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; Mr. Mack I. Whittle Jr.; Mr. Charles H. Williams; and Mr. John C. von Lehe Jr., Board Chairman. Mr. William W. Jones Jr. and Mr. Tommy Preston were absent.

Other Board members present were: Mr. Mark W. Buyck 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; Ms. Leah B. Moody; Mr. Eugene P. Warr Jr.; and Mr. Thad H. Westbrook.

Chairman of the USC Columbia Faculty Senate August E. "Augie" Grant and USC Columbia Student Government President Michael Parks also were present.

Others present were: President Harris Pastides; Secretary Amy E. Stone; 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 Development Jancy Houck; Vice President for Information Technology William F. Hogue; Chief Communications Officer Wes Hickman; Executive Director of Audit & Advisory Services Pam Doran; University Treasurer Pat Lardner; USC Foundations Executive Director Russell H. Meekins; USC Aiken Chancellor Sandra Jordan; USC Beaufort Chancellor Al Panu; Palmetto College Chancellor Susan Elkins; Vice President for System Planning and USC Upstate Interim Chancellor Mary Anne Fitzpatrick; Senior Associate Vice President for Student Affairs and Academic Support Stacey Bradley; Associate Vice President for Housing and Student Development Gene Luna; Associate Vice President for Business Affairs Helen T. Zeigler; Associate Vice President for Finance Kelly Epting; Associate Vice President for Finance Jennifer Muir; University Libraries Dean Thomas F. McNally; Executive Director for the Office of Economic Engagement William D. "Bill" Kirkland; Executive Director of University Housing Kirsten Kennedy; Executive Director of My Carolina Alumni Association

Jack W. Claypoole; University Bursar Venessa Samuel; Director of Facilities Planning and Programming and University Architect Derek S. Gruner; Director of Strategic Planning and Assessment Cameron Howell; Director of Capital Budgets and Financing, Division of Administration and Finance, Charlie Fitzsimons; Director of Business Operation, University Housing, Parker Leake; Audit & Advisory Services Assistant Director Glenn Murray; Managing IT Audit Consultant, Audit & Advisory Services, Roscoe Patterson; Senior IT Audit Consultant, Audit & Advisory Services, Richard Stingel; Director of Financial Reporting, Controller's Office, Sandy Smith; Director of Parking, Athletics Department, Jim Petrus; Carolina Distinguished Professor in the School of the Earth, Ocean and Environment Robert Thunell; Chief of Staff, President's Office, J. Cantey Heath Jr.; USC Aiken Executive Vice Chancellor for Academic Affairs Jeff Priest; USC Aiken Executive Vice Chancellor for Administration and Finance Joe Sobieralski; USC Beaufort Executive Vice Chancellor for Academic Affairs Eric Skipper; Mrs. Ann Loadholt, wife of Trustee Miles Loadholt; Tom McNeish and Brian D'Amico with the audit firm of Elliott Davis Decosimo, LLC; 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 them to introduce themselves. Mr. Hickman introduced members of the media in attendance: Josh Kendall and Cassie Cope with *The State*; John Whittle with TheBigSpur.com; and Scott Hood with GamecockCentral.com.

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.

Chairman Smith called for a motion to enter Executive Session for proposed contractual matters related to the University's use of external auditors and the purchase of artwork that were appropriate for discussion in Executive Session. 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: Trustees, President Pastides, Secretary Stone, Mr. Parham; Ms. Doran, Provost Gabel, Mr. Walton, Ms. Brunelli, Dean McNally, Mr. McNeish and Mr. D'Amico.

EXECUTIVE SESSION

RETURN TO OPEN SESSION

During the Executive Session, Chairman Smith passed the gavel to Trustee Whittle. Presiding Chairman Whittle called the meeting back to Open Session.

II. Elliott Davis Decosimo Contract

Presiding Chairman Whittle moved to recommend full Board approval of a two-year contract extension with Elliott Davis Decosimo (EDD). Mr. Burroughs seconded the motion. The vote was taken and the motion carried. Chairman Smith abstained.

Following the vote, Presiding Chairman Whittle passed the gavel back to Chairman Smith for the remainder of the meeting.

III. External Audits

Chairman Smith called on Mr. Tom McNeish.

A. Financial Statement Audit, Fiscal Year 2015-2016

Mr. McNeish, a shareholder with EDD, presented the draft financial statement audit for the year ended June 30, 2016. The auditors completed their work and based on the audit procedures performed, EDD intends to issue an unmodified opinion on the University's financial statements. An unmodified opinion indicates that 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, and have been submitted as a draft to the State Comptroller General's Office due to an ongoing review of information provided by the State Treasurer's Office. The University and EDD met the October 1 deadline for completion. In future years, the final audit report is expected to be submitted by the October 1 deadline in advance of the Board of Trustees receipt of the document. Following the completion of these statements, the University financial staff will compile the Comprehensive Annual Financial Report (CAFR) and submit that document late this fall to the Government Finance Officers Association.

Mr. McNeish presented the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. Two items of risk were noted in the report, including the statement of capital asset activity and recording of grant revenue and accounts receivable. The University's Controller's Office has provided responses to clear these two findings and prevent their reoccurrence in subsequent years.

B. System Audit Management Letter

The University's management letter includes items that are not audit findings, but are possible deficiencies or weaknesses. If a significant or material weakness is identified, government auditing standards require notification to the University by EDD. With the new finance system implementation this year, seven items were added to the two already mentioned. The University's Controller's Office has provided responses for each of these findings and is at work on additional system support and defining procedures to prevent their reoccurrence in subsequent years.

Chairman Smith stated that these documents were provided in the meeting materials and were received as information.

IV. Internal Audits/Reviews

Chairman Smith called on Ms. Doran.

A. Payment Card Industry Compliance

Ms. Doran said the Payment Card Industry Data Security Standards (PCI DSS) are the minimum set of security standards that businesses are required to adopt as due diligence for protecting customer credit card information. The first version of the standards was released in 2004. The requirement is contractual, not regulatory or statutory, whereby card associations can be selective as to who they provide services. Merchants (the University) accept services on a voluntary basis and agree to abide by association rules. The Standards apply to the merchants, service providers (third-party vendors), and hardware and software systems that process, store and transmit the cardholder data in electronic and paper transactions.

Ms. Doran said that the PCI DSS program is administered for 242 locations across eight campuses that accept payments on behalf of the University. A total of 75 of those locations accept credit, debit and/or prepaid cards. The University Bursar's Office processes approximately 250,000 card transactions annually totaling \$77 million.

The program includes an annual completion of a self-assessment questionnaire by University units that process credit card data. The Bursar's Office provides guidance to the units for completing the questionnaire and retaining supporting documentation. The University engages a vendor that is a Qualified Security Assessor (QSA) to certify compliance.

The audit scope included policy and procedures supporting adherence to PCI DSS requirements and the USC service unit and third party service provider compliance with PCI DSS by reviewing completed self-assessments.

Ms. Doran reported that overall the Payment Card Industry Compliance process was being properly managed in all material aspects within the scope of the review. However, AAS did make recommendations for improvement in completing the self-assessments by providing more clarity in roles and responsibilities, and accuracy in self-assessment responses and retaining supporting documentation that is readily available.

Ms. Doran said that the Bursar's Office agreed with the recommendations and will provide guidance to University merchants that support the recommendations, will increase its on-site reviews and the vendor will continue to perform on-site reviews of units managing high-volumes of cardholder data and those with a change in process.

B. Tracking Report

Ms. Doran provided a Tracking Report indicating that 15 audits had a total of 55 outstanding recommendations. Of the 55 recommendations, 21 had been implemented, 13 were not yet due, and 21 were extended. The status of the 21 extended findings are as follows: four were delayed due to the PeopleSoft Finance stabilization efforts; two were related to the University's IT Business Continuity Plans, which affected Banner and all other major enterprise resource planning (ERP) systems for the University, including Student Health Services; two were related to the Banner implementation clean-up, which were close to completion; and thirteen were taking more time than expected to resolve.

Trustee Fennell questioned the status of the University's IT Business Continuity Plans as they relate to the outstanding audit recommendations. Dr. Hogue responded that the plans were still a work in progress and hoped to have a draft proposal by December 2017.

Chairman Smith stated that these documents were provided in the meeting materials and were received as information.

V. Conflict of Interest Policies

Ms. Doran said that at the Board's request, she along with Mr. Parham, Mr. Walton, Mr. Chris Byrd and Ms. Caroline Agardy from Human Resources, worked together as a committee on a plan to establish an overall conflict of interest (COI) policy for the University. She said that the University currently has several policies that touch on the topic of COI or conflict of commitment:

- BTRU Policy 1.18, *Conflict of Interest*
- Bylaws, Board of Trustees, Article XVI, Conflicts of Interest Policy
- HR Policy 1.02, *USC Ethics Policy*
- HR Policy 1.30, *Outside Employment*
- ACAF Policy 1.50, *Outside Professional Activities for Faculty*
- RSCH Policy 1.06, *Disclosure of Financial Interests and Conflicts of Interest*
- FINA Policy 2.14, *Acquisition and Payment of Goods* (Currently in Draft)

The University, Ms. Doran explained, has all these policies because there are several nuances involved with COI depending on the relationship of the individual to the University (faculty, staff, board member etc.) and the types of activities that an individual performs for the University. The committee will develop an overall conflict of interest policy that is efficient, clear and outlines who is required to complete a disclosure, as well as how and when it needs to be done. This umbrella policy will refer to the individual policies that are in place to address unique circumstances.

In addition, the committee will incorporate staff member disclosures into the recently implemented on-line disclosure system for faculty and researchers (called the AIRS system). This system asks a series of questions and based on the individual's answers, directs them to additional questions for more details. The system will be demonstrated in a future board meeting.

Also, being addressed by the committee is the development of an employee code of conduct that will summarize expected behaviors. This will be an overall, umbrella policy that will build on the Carolinian Creed and bring ethics related policies together in one place.

Ms. Doran said that the committee expects to have the COI policy ready by March 2017.

VI. Audit and Compliance Committee

A. Matrix Review

Ms. Doran informed the committee that an updated matrix had been provided on the Board Portal and that the committee had completed everything planned for this meeting. The Matrix also shows the planned activities for Fiscal Year 2016/17. She noted that in the "Other Reports" section, the Enterprise Risk Management discussion replaced several individual risk topic discussions.

B. Self-Assessment

Ms. Doran reported that overall the self-assessment scores were all very good. She said that the lowest score related to committee member orientation. To address this concern, she plans to meet individually with all committee members this Fall, and she will provide individual orientations for all new committee members.

Chairman Smith stated that these reports were received as information.

VI. Other Matters

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

VII. Adjournment

Since there were no other matters to come before the committee, Chairman Smith called for the meeting to adjourn at 10:50 a.m.

Respectfully submitted,

Amy E. Stone
Secretary