University of South Carolina
BOARD OF TRUSTEES

Audit and Compliance Committee

June 7, 2019

The Audit and Compliance Committee of the University of South Carolina Board of Trustees met at 3:00 p.m. on Friday, June 7, 2019, in the C. Edward Floyd Boardroom at the Pastides Alumni Center.

Members present were: Ms. Rose Buyck Newton, Chair; Dr. C. Dorn Smith III; Mr. Thad H. Westbrook; Mr. John C. von Lehe Jr., Board Chairman; and Mr. Hubert F. Mobley, Board Vice Chairman; with Mr. J. Egerton Burroughs; Mr. Robert F. Dozier Jr.; and Mr. Mack I. Whittle Jr. joining by telephone. Mr. Chuck Allen and Mr. Charles H. Williams were absent.

Other Board members present were: Mr. C. Dan Adams; Mr. William C. Hubbard; Mr. Richard A. Jones Jr.; and Ms. Leah B. Moody; with Mr. A.C. "Bubba" Fennell III joining by telephone.

Also present were Strategic Advisor David Seaton, USC Columbia Faculty Senate Chairman Marco Valtorta and USC Columbia Student Government President Luke Rankin.

Others present were: President Harris Pastides; Secretary J. Cantey Heath Jr.; General Counsel Walter "Terry" H. Parham; Interim President-Elect and USC Upstate Chancellor Brendan Kelly; Chief Operating Officer Edward L. Walton; Vice President for Student Affairs Dennis A. Pruitt; Vice President for Human Resources Caroline Agardy; Interim Chief Communications Officer Sally McKay; Interim Provost-Elect and School of Music Dean Tayloe Harding; USC Aiken Chancellor Sandra Jordan; Palmetto College Chancellor Susan Elkins; University Controller Mandy Kibler; University Treasurer Pat Lardner; Chief Audit Executive Pam Doran; University Budget Director Joe Sobieralski; Associate Vice President and Chief of Police Christopher L. Wuchenich; Associate Vice President for Administration and Finance and Medical Business Affairs Jeffrey L. Perkins III; Associate Vice President for Finance Kelly Epting; Director of Audit & Advisory Services Glenn Murray; Director of Enterprise Risk Management & Insurance, Division of Law Enforcement and Safety, Brian Hann; Executive Director for the Office of Economic Engagement William D. "Bill" Kirkland; Deputy Director for the Office of Economic Engagement Chad Hardaway; Director of the Center for Applied Innovation and Advanced Analytics, Office of Economic Engagement, Andy Bernardin; Chief Executive Officer My Carolina Alumni

Association Wes Hickman; Office of Equal Opportunity Programs Director Clifford Scott; Director of Public Relations Jeff Stensland; Director of the Study Abroad Office, Global Carolina, Magdalena Grudzinski-Hall; USC Columbia Faculty Senate Chair-Elect Mark Cooper; Assistant to the President for System Affairs Eddie King; Elliott Davis shareholder Howie Houston; 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. Chair 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 Ms. McKay, who stated no members of the media were present.

Motion to Enter Executive Session

Chair Newton called for a motion to enter Executive Session for the receipt of legal advice related to a pending claim involving the Small Business Development Center. Trustee Smith so moved and Trustee Westbrook seconded the motion. The vote was taken and the motion carried.

Chair Newton invited the following persons to remain: Trustees, President Pastides, Secretary Heath, Interim President-Elect Kelly, Mr. Parham, Mr. Walton, Ms. Doran, Mr. Murray, and Mr. Seaton.

Executive Session

There being no other matters appropriate for Executive Session, Chair Newton declared a return to Open Session.

Return to Open Session

II.   Proposed Designated Funds Budget FY 2019-20

Chair Newton called on Mr. Walton, 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.

The USC Columbia campus FY 2019-20 total designated expenditures request is $5,444,400. Of that amount $4,851,500 is allocated to University scholarships, an increase of $1,450,000 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 the same amount as the FY 2018-19 budget.

A total of $381,375 in designated funds is budgeted for the comprehensive campuses and Palmetto College campuses, comparable to expected current year expenditures. This is a reduction of $5,925 from the FY 2018-19 budget. Each campus designated fund budget is as follows: Aiken - $108,300; Beaufort - $130,000; Upstate - $100,000; Lancaster - $31,175; Salkehatchie - $0; Sumter - $8,000; and Union - $3,900.

Chair Newton called for a motion to recommend the FY 2019-20 Designated Funds Budget to the Executive Committee for inclusion in the University's FY 2019-20 Budget. Trustee Westbrook so moved. Trustee Smith seconded the motion. The vote was taken and the motion carried.

III. <u>PeopleSoft HCM Implementation Briefing</u>

Chair Newton called on Ms. Kibler, who said the PeopleSoft Human Capital Management (HCM) project began in December 2017, and officially went live on April 1, 2019. She reported that overall the project has been a big success through project planning to development to implementation and ultimately to go-live. However, she said, as with any large project, there are hiccups and minor glitches. While there have been a few of these "glitches" since April 1, the collaboration and partnership between Human Resources (HR), the Payroll Department, the Controller's Office, and the Division of Information Technology (DoIT) have allowed issues to be addressed swiftly. This partnership plays a very large part in a successful go-live. Ms. Kibler reported that as of today, four payrolls and all deduction payments had successfully been processed on-time and accurately. She said much of this success also can be attributed to:

- Commitment and focus to organizational change management across the system, which provided a comprehensive structure to the upcoming changes and allowed for advocacy and advising from all levels of the system to ensure the success of the project.

- Having an integration partner in IBM coupled with the experts from USC HR and Payroll was key to staying focused and establishing project plans, timelines, milestones and deadlines.

- Having the commitment of an Executive Steering Committee to ensure the project was governed from top down was an integral part of the success.

- Involvement of the USC community helped shape the new system and was a guide for how information was communicated. The use of advisory and advocacy committees was key for buy-in and for feedback throughout the project.

- The exceptional in-person and online training tools developed so the entire USC community had an opportunity to learn about the system and to view personal data through the new Employee Self Service module.

Ms. Kibler said the system has brought about many efficiencies for HR and Payroll, as well as for other departments and institutions. Over 78% of the paper forms in HR and Payroll have been replaced with electronic forms that are user friendly. These forms also allow for electronic approvals in the system and provide users with the ability to validate data electronically. Efficiencies in these electronic forms have allowed HR and Payroll staff to focus on a more thorough review and analysis of all transactions. She and her staff will continue to focus on more efficiencies and bring additional forms to electronic format in the future, Ms. Kibler said.

Ms. Kibler asked Ms. Agardy to discuss HCM support. Ms. Agardy said following implementation, the HCM Support Team was retained to provide ongoing support for the module. This team includes staff who served on the project team; therefore, providing tremendous know-how to every service situation. Also, the HCM Training Team continues to provide refresher courses, weekly communications containing system update information to end users, and "Ready Room" opportunities to address hands-on questions.

Ms. Agardy said HCM Phase II – Time and Labor which will replace the Legacy ITAMS system, is scheduled to be implemented soon.

Chair Newton thanked Ms. Kibler and Ms. Agardy for the informative reports.

IV.   Internal Audits/Reviews

     A.   Enterprise Risk Management Audit Report

Chair Newton called on Ms. Doran, who deferred to Mr. Murray for presentation of the audit. Mr. Murray said the Columbia Campus Enterprise Risk Management (ERM) program was established in 2014, using guidance of the International Standards Organization (ISO). Continual evaluation of the program included external reviews in February 2018 and March 2019. For the March 2019 review, Audit & Advisory Services (AAS) partnered with an external evaluator. The scope of this audit included review of continuous business processes that extend the concept of risk management: identification and assessment of risks across the enterprise; development and implementation of response/mitigation plans; monitoring of identified risks; and scanning for emerging risks.

The audit recommendation to ensure the ERM risk identification process aligns with priorities set forth in the University's Strategic Plan has been addressed with the creation of an ERM Strategic Planning Committee, Mr. Murray reported.

Mr. Murray noted that in 2016, a Texas Tech University doctoral candidate reviewed ERM programs of 22 universities, and USC scored the highest rating.

B.	Study Abroad Office Audit Report

Mr. Murray said the Study Abroad Office, part of the University's Global Carolina initiative, has seen undergraduate participation increase from 834 in 2007-08 to 1,929 in 2017-18. The audit scope included review of the program development and oversight; health, safety and security of program participants; security of student information; and security of University information. AAS determined, during the course of the audit, that there was a robust control environment, with strong emphasis on health, safety and security of participants.

As a result of the audit, AAS recommended strengthening the crisis management training process for faculty and staff leading its programs. Also, AAS recommended the office provide information and training to students, to include an increased awareness of information security risks while traveling abroad.

C.	Tracking Report

Ms. Doran said the Tracking Report summary table showed there were 35 outstanding recommendations when the committee met on March 15, 2019. Since then, eight recommendations had been implemented. Of the remaining 27 findings: 12 were not yet due; 13 had extended completion dates; and two were pending follow-up. She reported efforts were underway to address the concerns in the remaining findings.

Ms. Doran discussed findings in three audits that have been outstanding for more than two years; noting significant progress had been made to address the Banner Student Information System Post-Implementation Review finding related to development of the Banner Data Dictionary. The Emergency Planning Audit finding related to Law Enforcement IT Disaster Recovery is expected to be completed by August 2019. As to the Contract Approval Process finding related to an unauthorized contract, Ms. Doran said the unauthorized contract was in the final stage of being resolved pending the vendor's signature. One of the date-extended findings that deals with the Faculty Conflict of Interest process, will require additional time to resolve, Ms. Doran reported.

Details of the deferred recommendations were provided in the report.

Chair Newton thanked Ms. Doran and said the reports were received as information.

V.	Audit & Advisory Services

A.	University Risk Assessment and Audit Plan FY 2019-20

Ms. Doran said AAS conducts annual risk assessments to ensure audits planned for each fiscal year capture the most current risks of the University. She said following consideration of the

risk assessment, AAS determined that, in addition to annual components of the audit plan, the FY 2019-20 Audit Plan will include: purchasing operations/vendor management; online learning reviews; IT third-party contracts (to ensure correct verbiage is included to protect and secure University data); advisory reviews of capital projects operating budgets; and minors on campus audits of the comprehensive and Palmetto College campuses. A copy of the FY 2019-20 Audit Plan was provided in the meeting materials.

Chair Newton called for a motion to approve and forward the University Risk Assessment and the FY 2019-20 Audit Plan to the Executive Committee for its review and approval, as required by Board of Trustees Policy 1.06. Trustee Westbrook so moved. Trustee Smith seconded the motion. The vote was taken and the motion carried.

B.   Proposed Audit & Advisory Services Budget FY 2019-20

Chair Newton called on Ms. Doran, who said the FY 2019-20 AAS budget includes a $12,600 increase over the prior year. The increase includes $2,600 for salaries and benefits, $5,000 for staff training, and $5,000 for AAS's contract with its audit management software company. The training budget increase is due to the hiring of additional AAS staff she said.

Chair Newton called for a motion to approve the FY 2019-20 Audit & Advisory Services Budget as presented and to recommend it to the Executive Committee for inclusion in the University's FY 2019-20 Budget. Trustee Westbrook so moved and Trustee Smith seconded the motion. The vote was taken and the motion carried.

VI.   Audit and Compliance Committee

A.   Education – Enterprise Risk Management

Chair Newton called on Brian Hann, Director of Enterprise Risk Management & Insurance, who said since his last report to the committee, he was happy to report the continuation and improvement of the University's Enterprise Risk Management (ERM) program. Mr. Hann gave a brief summary of what he previously covered in ERM program presentations to the committee, including: its structure and the Association of Governing Boards (AGB) description of ERM as a long-term continuous improvement process led by senior leadership to identify organizational risks; to determine which risks are most significant; and to implement and monitor controls to manage the risks.

Mr. Hann reported no major or minor non-conformances were found during the ERM's ISO phase one audit in February 2018, or its phase two audit in March 2019. He noted the University requested the external audits, even though they are not required by the standards. The phase one audit scope focused on

reviewing ERM program documentation to ensure its compliance with ISO standards. Phase two was a hands-on audit which included interviews with risk owners, to confirm the ERM program was fulfilling its responsibilities.

Mr. Hann said the ERM Executive Oversight Committee adopted the high priority risk areas identified by AAS in its 2014 and 2017 risk assessment process. For the past three years, comprehensive ERM Program annual reports have been submitted to the Executive Oversight Committee, which include the expanding scope and structure of the program and summarize the specific risks, current controls, controls being implemented, as well as leading and lagging indicators. Of the 476 risks included in the annual report, 20 were selected for a more comprehensive reporting to the Executive Oversight Committee. Mr. Hann said a dashboard report was developed by the committee, to track and monitor the selected risks on a quarterly basis. A copy of a summary of the report was included in the meeting materials.

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 conducting annual surveillance audits.

Chair Newton asked Mr. Hann to comment on the lower risk status for item #10 on the Summary of Risk Report, which was provided in the meeting materials. Mr. Hann said the lower risk status of Item #10, "An IT infrastructure component fails (mainframe, server, etc.)" was due to the migration from the University's mainframe to the PeopleSoft programs.

Chair Newton thanked Mr. Hann for his informative presentation.

B. Matrix Review

Chair Newton reported the Matrix showed the committee had completed everything planned for this meeting. Also, she noted the committee continued to monitor the University's Integrity Line. A copy of the Matrix was provided on the Board Portal.

VII. Other Matters

Chair Newton called for any other matters to come before the committee. There being none, she read the following statement regarding the selection of Elliott Davis as the University's External Auditor:

> The Committee performed a competitive bidding process for the University's
> external auditor. Four firms submitted proposals for consideration. Each firm
> delivered a presentation of its proposal to three members of the Audit and

Compliance Committee. Elliott Davis was selected for the engagement. The new contract with Elliott Davis is a one-year contract with option to extend for four additional one-year periods.

Chair Newton said the committee had previously worked with Mr. Brian D'Amico from Elliott Davis. Under the new contract, Mr. Howie Houston from the Greenville office would serve as the external auditor. She introduced Mr. Houston and he made brief comments.

VIII.   <u>Adjournment</u>

Chair Newton declared the meeting adjourned at 3:50 p.m.

Respectfully submitted,

J. Cantey Heath, Jr.
Secretary