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University of South Carolina

BOARD OF TRUSTEES

Audit and Compliance Committee

June 5, 2015

The Audit and Compliance Committee of the University of South Carolina met at 11:05 a.m. on Friday, June 5, 2015, in the 1600 Hampton Street Board Room.

Members present were: Dr. C. Dorn Smith III, Chairman; Ms. Paula Harper Bethea; Mr. J. Egerton Burroughs; Mr. Hubert F. Mobley; Mr. Thad H. Westbrook; Mr. Mack I. Whittle, Jr.; Mr. Eugene P. Warr, Jr., Board Chairman; and Mr. John C. von Lehe, Jr., Board Vice Chairman. Mr. Charles H. Williams was absent.

Other Board members present were: Mr. Chuck Allen; Mr. Mark W. Buyck, Jr.; Mr. Thomas C. Cofield; Mr. A. C. "Bubba" Fennell III; Mr. Toney J. Lister; Ms. Leah B. Moody; and Mrs. Molly M. Spearman.

Also present was student representative Jonathan Kaufman.

Others present were: President Harris Pastides; Secretary Amy E. Stone; General Counsel Walter "Terry" H. Parham; Chief Operating Officer Edward L. Walton; Chief Financial Officer Leslie Brunelli; Interim Provost Helen Doerpinghaus; Vice President for Student Affairs Dennis A. Pruitt; Vice President for Research Prakash Nagarkatti; Vice President for Human Resources Chris Byrd; Vice President for Facilities and Transportation Derrick Huggins; Executive Director of Audit & Advisory Services Pam Doran; Chief Communications Officer Wes Hickman; Athletics Director Ray Tanner; University Foundations Executive Director Russell H. Meekins; Senior Vice Provost and Dean of Graduate Studies Lacy Ford; Executive Director for the Office of Economic Engagement William D. "Bill" Kirkland; College of Arts and Sciences Dean Mary Anne Fitzpatrick; Law School Dean Robert M. Wilcox; University Controller Jennifer Muir; University Treasurer Pat Lardner; Chief Financial Officer, Athletics Department, Jeff Tallant; Senior Associate Athletics Director Judy Van Horn; Associate Director of Strategic Planning and Assessment Cameron Howell; Deputy Chief Information Officer Jeff Farnham; Director of the Office of Research Compliance, Office of the Vice President for Research, Thomas Coggins; Director of Facilities Design and Construction Jeffrey D. Lamberson; Director of Capital Budgets and Financing, Division of

Administration and Finance, Charlie Fitzsimons; Chief Diversity Officer John H. Dozier; Risk Manager, Division of Environmental Health and Safety and Risk Management, Brian Hann; Chief of Staff, President's Office, J. Cantey Heath, Jr.; Executive Vice Chancellor for Academic Affairs, USC Aiken, Jeff Priest; USC Aiken Vice Chancellor for Finance and Administration Joe Sobieralski; USC Sumter Associate Professor of Business Administration Hendrikus van Bulck; University Technology Services Production Manager Matt Warthen; and Board staff members Leah Kososki and Terri Saxon.

I. Call to Order

Chairman Smith called the meeting to order, welcomed those in attendance and asked them to introduce themselves. No members of the media were present.

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.

II. Research Compliance Report

Chairman Burroughs called on Mr. Coggins, who explained the mission, responsibilities and organization of the Office of Research Compliance (ORC). The ORC is responsible for the oversight and management of non-fiscal compliance activities related to sponsored programs and research, including drafting and implementing policy, preparing compliance training programs, and coordinating several institutional compliance committees.

The ORC responsibilities include: Human Subjects Protection Program and Institutional Review Board; Institutional Responsibility for Animal Care and Use Committee; conflict of interest; Institution Biosafety Committee; misconduct in research and Scholarship – policy development and oversight; oversight for issues related to export control regulations; and coordination of HIPAA research-related compliance activities.

Chairman Smith thanked Mr. Coggins for his informative report, which also was provided on the Board Portal.

III. Designated Funds FY 2015-16 Budget

Chairman Smith called on Ms. Brunelli, who reported the FY 2015-16 Designated Funds Budget was \$3,931,900; identical to the prior year. The budget is allocated from auxiliary enterprise revenues with \$3,401,500 budgeted for University scholarships and \$530,400 budgeted for "R" funds, which are Board of Trustees' controlled funds.

Chairman Smith called for a motion to recommend the FY 2015-16 Designated Funds Budget to the Executive Committee for inclusion in the University's FY 2015-16 Budget. Mr. Whittle so moved. Mr. Burroughs seconded the motion. The vote was taken and the motion carried.

#### IV. Internal Audits/Reviews

##### A. Special Collections

Chairman Smith called on Ms. Doran. She said that at the Board's request, Audit & Advisory Services (AAS) had begun an audit of Special Collections to review the receipt and cataloging of fine arts not managed by the University Libraries and to determine if additional procedures are warranted. She said she hoped to report the findings at the committee's October meeting.

Trustee Whittle said that according to University Libraries Dean Tom McNally, the estimated value of fine arts on campus was over \$500 million; which he noted was a significant asset for the University and the State.

##### B. Capital Project Management

Ms. Doran said that the Facilities Design and Construction Department management and oversight of capital projects and renovations encompassed the University's entire system of campuses. The department is responsible for projects from conception to completion. To successfully carry out the mission, project managers collaborate with project stakeholders to: define project scope and requirements; communicate plans and schedules; design interiors; ensure exterior spaces are compatible with the University's vision for an urban campus; manage schedules and budgets; and negotiate change orders. Project managers guide relationships throughout the duration of a project, serving as the University's liaison to its contractors and service providers.

The scope of the Capital Project Management Audit was primarily limited to the financial and operational activities and processes for the calendar year ending December 31, 2014. In collaboration with management, Ms. Doran said that AAS completed a risk assessment of the capital management process to facilitate the identification and assessment of potential risks impacting the operations and processes under examination, as well as to identify existing mitigating controls. The areas reviewed included:

- Completion of project feasibility and scoping reviews during project planning stages
- Whether the Office of State Engineer (OSE) approvals were obtained when required
- Whether timely communication occurred among architect, construction manager, project manager, and University stakeholders
- Monitoring of budgets and schedules

- Pay applications and change orders for proper approvals and reasonable supporting documentation.

Ms. Doran reported that with the exception of two findings, the risk-based audit determined Facilities was properly managing, in all respects, its resources and related risks within the scope of the review in accordance with University and department policies. To address the issues of the audit's first finding, the department drafted a "Project Management Manual" with a standardized budget template. The manual is expected to be complete and in place for calendar year 2016.

The second finding dealt with Facilities' project management software. The department utilizes FAMIS project management software for its budget review tracking process, among other functions. However, FAMIS is not real-time. Therefore, AAS recommended Facilities develop a business case to determine if other technology solutions might be a better fit for the department. The University is transitioning to PeopleSoft software campus-wide, which could be the best technology option for Facilities. Discussion ensued regarding Facilities current project management process and the fact that it could take up to two years before it could utilize PeopleSoft, should that be the best option. Facilities expects to share the results of its research on this issue by December 2015.

### C. Tracking Report

Ms. Doran reported that three of nine recommendations to remedy issues identified through various audits had been implemented, (two findings in the University Libraries – Special Collections audit, and one of four findings in the Student Health Services – HIPAA Security Assessment audit). Five of the six remaining issues were not yet due to be resolved.

Chairman Smith stated that these reports were received as information.

### V. Update of Board of Trustees Policy BTRU 1.18 Conflict of Interest

Ms. Doran noted that the revised policy reflected changes with the addition of definitions and procedures. She said she tried to make the policy more consistent with current University policies ACAF 1.50 Outside Professional Activities for Faculty and RSCH 1.06 Disclosure of Financial Interests and Management of Conflicts of Interest Related to Sponsored Projects (Research). Following discussion with the Provost Office and Mr. Coggins, Ms. Doran said she recommended excluding faculty from the BTRU 1.18 policy since faculty were already required to disclose conflicts of interest under ACAF 1.50.

Mr. Whittle asked why one policy could not cover all University personnel. Ms. Doran responded that approval of revised BTRU 1.18 was the first step toward one conflict of interest policy.

Chairman Smith called for a motion to recommend full Board approval to update the BTRU 1.18 Conflict of Interest policy as presented by Ms. Doran and described in the materials posted on the Board Portal. Mr. Whittle so moved and Mr. Westbrook seconded the motion.

Following much discussion, Mr. Whittle withdrew his motion, and Mr. Westbrook his second. Ms. Doran was asked to work with the University's General Counsel on further changes to the policy before bringing it back to the committee.

VI. Audit and Compliance Committee Matrix Review

Ms. Doran informed the committee that an updated Matrix had been provided on the Board Portal. She noted that the committee had completed all items of business on the matrix for the fiscal year.

VII. Audit & Advisory Services

A. FY 2015-16 Audit & Advisory Services Budget

Ms. Doran reported that the FY 2015-16 Budget of \$1,028,610 was the same as the prior year. However, she did reallocate funds within the budget, including the decrease in contractual services and the increase in employee costs. These changes resulted from the hiring of three new employees that brought the office to full staff.

Mr. Burroughs asked Ms. Doran if the budget was adequate and she responded yes.

Chairman Smith called for a motion to approve the FY 2015-16 Audit & Advisory Services Budget as presented and recommend it to the Executive Committee for inclusion in the University's FY 2015-16 Budget. Mr. Westbrook seconded the motion. The vote was taken, and the motion carried.

B. FY 2015-16 Audit Plan

Ms. Doran said that the FY 2015-16 Audit Plan was part of the risk assessment and three-year plan presented at the committee's meeting in October 2014. An annual review of the plan is conducted to consider whether adjustments are warranted due to emerging or changing risks. This annual review resulted in the addition of four audits. First, the College of Hospitality, Retail and Sport Management audit was requested by the Provost due to a change of dean. Second, the University Policies Review was added, since policies serve as the foundation for the internal control environment and some are outdated. Third, the Lottery-Funded Scholarships/Grants audit was added due to a new Commission on Higher Education proviso. Finally, the audit of Clery Act Reporting will be conducted to assess the University's compliance with the federal mandate. In response to a Trustee's question, Ms. Doran explained that the Clery Act is the federal law requiring colleges and universities to disclose information about crime on and around their campuses.

Ms. Doran said that in order to ensure AAS resources were sufficient to accomplish the FY 2015-16 Audit Plan, three audit engagements were removed: Colonial Life Arena Business Operations; Darla Moore School of Business; and Gifts Processing. These audits will be considered for inclusion in the FY 2016-17 Audit Plan.

Chairman Smith called for a motion to approve and forward the FY 2015-16 Audit & Advisory Services Audit Plan to the Executive Committee for its review and approval, as required by Board of Trustees Policy 1.06. Mr. Whittle so moved. Mr. Westbrook seconded the motion. The vote was taken, and the motion carried.

C. Annual Report

Chairman Smith said that the report was made available on the Board Portal; and in the interest of time, questions should be directed to Ms. Doran. There were no questions.

Chairman Smith said there was a personnel matter appropriate for discussion in Executive Session. He called for a motion to enter Executive Session. Mr. Whittle so moved and Mr. Westbrook seconded the motion. The vote was taken and the motion passed.

Chairman Smith invited Trustees, President Pastides, Secretary Stone, and Mr. Byrd to remain. He noted for those individuals not invited to remain, there would be no action taken as a result of the Executive Session; and the next meeting, Intercollegiate Athletics Committee, was scheduled to begin at 1:30 p.m.

EXECUTIVE SESSION

RETURN TO OPEN SESSION

VIII. Audit and Compliance Committee Self-Assessment

Chairman Smith stated that the Board of Trustees Office would email committee members a link to the committee's self-assessment form.

IX. Other Matters

Chairman Smith called for any other matters to come before the committee. Secretary Stone announced that for those Board members participating in a tour of the new Alumni Center and the newly acquired property behind Gamecock Park, a bus was waiting in front of 1600 Hampton Street.

X. Adjournment

Since there were no other matters to come before the committee, Chairman Smith called for the meeting to adjourn at 1:26 p.m.

Respectfully submitted,

Amy E. Stone  
Secretary