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University of South Carolina  
BOARD OF TRUSTEES

Audit and Compliance Committee

June 5, 2020

The Audit and Compliance Committee of the University of South Carolina Board of Trustees met at 11:00 a.m. on Friday, June 5, 2020, via conference call and the meeting was hosted in 206B of the Osborne Administration Building.

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

Other Board members participating were Mr. C. Dan Adams, Mr. A. King Dixon II, Dr. C. Edward Floyd, Mr. Richard A. Jones Jr., Mr. Toney J. Lister, Mr. Miles Loadholt, Ms. Leah B. Moody, Ms. Molly M. Spearman, and Mr. Eugene P. Warr Jr. Mr. William C. Hubbard recused himself and did not participate.

Also participating were USC Columbia Faculty Senate Chair Mark Cooper and USC Columbia Student Government President Issy Rushton.

Others present were President Robert L. Caslen Jr., Secretary J. Cantey Heath Jr., Associate Vice President for Finance Kelly Epting, Interim Executive Vice President for Academic Affairs and Provost Tayloe Harding, Assistant Vice President and Chief of Staff for the Division of Administration and Finance Joe Sobieralski, Interim Chief Communications

Officer and Director of Public Relations Jeff Stensland, and Board support staff.

Participating by telephone were Vice President for Human Resources Caroline Agardy, President's Chief of Staff Mark Bieger, Presidential Fellow Susan C. Bon, Senior Associate Vice President Division of Student Affairs and Academic Support Stacey Bradley, Executive Director for Strategic Initiatives Jack Claypoole, USC Upstate Interim Chancellor Derham Cole, Chief Audit Executive Pam Dunleavy, Palmetto College Chancellor Susan Elkins, College of Arts and Sciences Dean Lacy Ford, Dean of College of Engineering and Computing Hossein Haj-Hariri, Chief Executive Officer USC Alumni Association Wes Hickman, Elliott Davis shareholder Howie Houston, Elliott Davis Manager Kelley Jones, USC Athletics General Manager Sid Kenyon, University Controller Mandy Kibler, Assistant to the President for System Affairs Eddie King, Executive Director of Economic Engagement and Director Incubator Bill Kirkland, Elliott Davis' Senior Manager Brittany Long, Executive Communications Director Sally McKay, USC Beaufort Chancellor Al Panu, General Counsel Terry H. Parham, Chief Operating Officer Jeffrey L. Perkins III, Vice President for Student Affairs and Vice Provost for Academic Support Dennis A. Pruitt; Office of Equal Opportunity Programs Director Clifford Scott, Special Assistant to the President James Smith, Athletics Director Ray Tanner, Vice President for Communications Larry Thomas, Associate Vice President for Enrollment Management and Dean of Undergraduate Admissions Scott Verzyl, Senior Vice President for Administration and Chief Operating Officer Edward L. Walton, and Interim Chief Diversity Officer and Vice Provost for Inclusion Tracey Weldon-Stewart.

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 Trustees participating 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 Mr. Stensland, who introduced Mike Fitts with the *Post and Courier*, and Jack Bingham with *The Daily Gamecock*.

## II. External Audits

Chair Newton called on independent auditor Mr. Howie Houston from Elliott Davis to present results of the External Audit. Mr. Houston thanked the controller, internal auditors, and the entire finance team for their support of the external audit team in completing the Fiscal Year 2019 Engagements encompassing the Audit of Federal Awards and NCAA Agreed-upon Procedures. As part of the reports required by Government Auditing Standards and the Uniform Guidance, major programs audited for FY 2019 included a research and development cluster, a student financial assistance cluster, child welfare research training or demonstration, and HIV Care formula grants totaling \$527 million in awards. The Single Audit Summary Findings reflect nine findings of which one was a significant deficiency over financial reporting, two were material weaknesses over compliance, and six were significant deficiencies over compliance. The quantitative aspect of these findings was \$9,894 in questioned cost. Reports provided on the Board Portal outline the findings and management's correction action plans. Mr. Houston noted the feedback and response from Management supports that the audit findings are taken seriously, and comprehensive plans have been developed to address those findings. Implementation of those plans will be reported during the Fiscal Year 2020 audit report. Mr. Houston stated while there were several repeat findings,

many of them resulted from timing issues related to a lag in reporting.

Mr. Houston reported audits of 48 Agreed-Upon Procedures for both the USC Columbia and USC Upstate Departments of Athletics were conducted for FY 2019. He noted there were no findings.

Chair Newton thanked Mr. Houston and his team and stated the Reports Required by Government Auditing Standards and the Uniform Guidance for FY 2019, the USC Columbia Department of Athletics Agreed-Upon Procedures for FY 2019, and the USC Upstate Department of Athletics Agreed-Upon Procedures for FY 2019 were received as information.

### III. Proposed Designated Funds Budget FY 2020-21

Chair Newton called on Ms. Kelly Epting who presented the proposed Designated Funds Budget for FY 2020-21. Ms. Epting stated funds for designated use are derived from the net income from concessions campus vending, bookstore sales, and trademark and licensing. The total designated expenditures requested for Columbia is \$5,444,400, of which \$4,851,500 is allocated to University scholarships. Designated funds requested in University “R” accounts amount to \$592,900. Both funding requests are the same as the prior year budget. Ms. Epting stated the \$372,000 designated funds budget for the Comprehensive Universities and Palmetto Regional Colleges is \$8,975 less than the prior year.

Chair Newton called for a motion to recommend the FY 2020-21 Designated Funds Budget to the Executive and Governance Committee for inclusion in the University’s FY 2020-21 Budget. Dr. Smith so moved, and Mr. Dozier seconded the motion. A vote was taken, and the motion carried.

IV. Audit & Advisory Services

Chair Newton called on Ms. Pam Dunleavy to provide an Audit & Advisory Services report.

A. University Risk Assessment and Audit Plan FY 2020-21

Ms. Dunleavy noted the Office of Audit & Advisory Services conducts a risk assessment every three years and develops a three-year audit plan based on that risk assessment. However, due to the COVID-19 pandemic and changing learning environment, a one-year comprehensive risk assessment was conducted for which a one-year audit plan was developed. Risk Assessment interviews were conducted with voting and non-voting members of the Board of Trustees, President Caslen and members of his Executive Council, faculty and staff overseeing various University Offices and Divisions, as well as external constituents and those representing the University System Institutions, Colleges and Schools. Areas of risk identified relate to online learning, financial health, system governance, research integrity and compliance, IT infrastructure, and human resources.

Chair Newton called for a motion to recommend approval of the University Risk Assessment and Audit Plan FY 2020-21 as presented and posted in the materials on the Board Portal for this meeting. Mr. Burroughs so moved, and Mr. Whittle seconded the motion. A vote was taken, and the motion carried.

B. Proposed Audit & Advisory Services Budget FY 2020-21

Ms. Dunleavy presented the projected fiscal year 2019-20 actuals and the proposed fiscal year 2020-21 budget for Audit & Advisory Services. She stated next

year's proposed budget supports the continuation of assurance and advisory activities, a commitment to staff development and retention, and ongoing software maintenance costs of the audit management and hotline systems. She noted that less than one-third of last year's budget was expended due to conference cancellations resulting from COVID-19. The proposed budget is flat and funds 12 months of current salaries and benefits by reducing travel and training while still meeting continuing education requirements and maintaining professional certifications. The planned use of \$65,000 in carryforward funds will be to support a specialized IT security audit and to implement an audit management software package.

Chair Newton called for a motion to recommend the FY 2020-21 Audit and Advisory Services Budget to the Executive and Governance Committee for inclusion in the University's FY 2021-21 Budget. Mr. Westbrook so moved, and Mr. Whittle seconded the motion. A vote was taken, and the motion carried.

V. Internal Audits / Reviews

Ms. Dunleavy reported the A-F internal audits listed below were conducted and completed prior to the COVID-19 pandemic and uploaded to the Board Portal for review prior to today's meeting. She noted the Academic Computing audit warranted a closer look with respect to online learning and, therefore, an additional online learning audit will be conducted.

- A. Academic Computing
- B. Colonial Life Arena Business Operations
- C. Identity and Access Management

- D Classroom Space Utilization
- E Title IX Compliance – Comprehensive Universities and Regional Palmetto College
- F President’s Office and Board Office Expenses for 2019 Calendar Year.
- G Conflict of Interest Disclosures Process Update

At the request of the Committee, Ms. Dunleavy provided an update on the status of the Conflicts of Interest Disclosures process. She stated there are four steps in the Conflicts of Interest Disclosure process beginning with annual disclosure in January, followed by review and assessment, leading to creation of a plan to manage disclosures determined to be potential conflicts, and then ongoing monitoring of Conflict Management Plans. She noted compliance rates around the completion of disclosures is the highest she has seen due in part to support of the Chancellors, Interim Provost Tayloe Harding, and Faculty Senate Chair Mark Cooper. There are opportunities around disclosure review and management plans for ensuring consistency, adequate review training, and coordination. President Caslen recommended creating a committee to assess the process and identify organizational resources necessary to improve process efficiency. Mr. Whittle expressed support of President Caslen’s recommendation and suggested appointing a member of the Audit and Compliance Committee to that committee as well.

- H Audit Tracking Report

The Audit Tracking Report was provided as information. There were thirty-five Outstanding Recommendations in October 2019. To date, seventeen recommendations have been addressed, thirteen recommendations have been

extended, and five are not yet due.

Chair Newton stated that the six Audit Reports, the Conflicts of Interest Disclosure Process Update, and the Audit Tracking Report were received as information.

## VI. Policy Reviews

Chair Newton called on Mr. Parham for review of proposed changes to Board policy BTRU 1.06, Audit & Advisory Services..

### A. BTRU 1.06, Audit & Advisory Services

Mr. Parham stated BTRU 1.06 is the policy that outlines the charter for Audit and Advisory Services. President Caslen believes the Chief Audit Executive and Audit and Advisory Services should have a recognized reporting relationship to the University President. As such, the proposed policy amendments confirm that Audit and Advisory Services reports to the Board's Audit and Compliance Committee, that the Chief Audit Executive is appointed by and serves at the pleasure of the Board, and that the Board sets the Chief Audit Executive's salary. Further, it sets forth a secondary reporting relationship to the University President who shall be authorized to request that Audit and Advisory Services conduct audits and other services deemed necessary to assist the administration in the effective discharge of its responsibilities. The proposed amendments also reflect that the President would have input in the development of Audit and Advisory Services' annual University-wide Risk Assessment and Audit Plan. Mr. Parham stated Ms. Dunleavy is supportive of the proposed amendments. Mr. von Lehe noted the proposed changes do not impact the Chief Audit Executive's autonomy as a Board employee.

Chair Newton stated in recognition of these proposed changes, Ms. Dunleavy has been added to the President's Executive Council. She called for a motion to approve the proposed amendments to BTRU 1.06, Audit and Advisory Services, as presented and posted in the materials on the Board Portal for this meeting. Dr. Smith so moved, and Mr. Burroughs seconded the motion. A vote was taken, and the motion carried.

B. BTRU 1.14, University Designated Funds

Ms. Newton stated BTRU 1.14, University Designated Funds policy was part of the annual policy review as required by the Audit and Compliance Committee Charter. Through this policy, the Board of Trustees authorizes the maintenance and expenditure of certain University Designated Funds to promote the goodwill of the University and to advance the University's mission through a wide range of activities. Ms. Newton stated that no changes are recommended, and this item is presented for information only.

C. BTRU 1.22, Reporting Violations of State and Federal Laws or Regulations

Ms. Newton stated BTRU 1.22, Reporting Violations of State and Federal Laws or Regulations policy was part of the annual policy review as required by the Audit and Compliance Committee Charter. This policy defines the rights, responsibilities, and protections afforded to a University employee who reports any wrongdoing by the University or a University employee that results in substantial abuse, misuse, destruction, or loss of substantial public funds or public resources, or is an intentional violation of federal, state or local laws, University policies, or state ethics guidelines,

which is not merely technical or of a minimum nature. Ms. Newton stated that no changes are recommended, and this item is presented for information only.

VII. Audit and Compliance Committee

A. Education – Governance, Fiduciary Responsibilities for Financial Statements

Mr. Houston stated the Audit and Compliance Committee Governance education presentation was uploaded to the Board Portal, and while the presentation is intended to focus on the Committee's governance responsibilities, insights around specific risks and opportunities as well as best practices are included. The current environment has put significant stress on the risk management of all universities, particularly around crisis response, business continuity, and other operational and financial impacts. The current environment has also forced the industry and other universities to think differently about campus safety, financial planning, communications, resource efficiency, and workforce needs. Some of the key challenges facing higher education are accessibility, quality, sustainability, economic development, service to communities, and knowledge creation. With those challenges there are certain hard and soft trends impacting the execution of strategic plans. Those trends include new student populations, new educational delivery methods, financing changes, rising public expectations and oversight, changing missions, and the greater responsibility of accountability to all constituents. The current environment has also introduced new trends including continued preemptive and aggressive cost control; more flexible work arrangements that are more commonplace, practical and sustainable; implications on strategic and capital planning funding availability; emphasis

on lower cost educational providers as federal funding is reduced; and closely monitoring the conversion rate of student deposits to enrollment over the next semester and every semester thereafter. Risk complexities and inherent challenges and related trends emphasize the importance of risk assessments and audit plans. Audit Committee responsibilities encompass external auditors, areas for special review, compliance reporting, accountability policies, insurance, and risk transfer (if not handled by the finance committee), and matters related to internal controls and risk management. Mr. Houston stated in reviewing best practices, the Committee should consider whether the following best practices have been implemented and whether they are being done well: annual self-evaluation, annual evaluation of audit and advisory services, annual evaluation of external auditor and related service providers, periodic education, participation in annual risk assessment and understanding risk areas, review of significant compliance filings, executive sessions with external auditor, and coordination and collaboration with other committees. He reviewed the top eight questions that should be asked of the external auditor and areas the Committee should focus on and understand in looking ahead.

Chair Newton thanked Mr. Houston for his report and stated the report was received as information.

B. Committee Charter Review

Chair Newton stated as part of the annual review of the Audit and Compliance Committee Charter, the Charter has been updated to reflect current practices and is presented for approval. She called for a motion to recommend approval to the Board

of proposed amendments to the Audit and Compliance Committee Charter. Mr. Burroughs so moved, and Mr. Allen seconded the motion. A vote was taken, and the motion carried.

C. Committee Matrix Review

Chair Newton presented the Audit and Compliance Committee Planning Matrix for the 2019/2020 Fiscal Year. She noted the Conflict of Interest Policy will likely be reviewed in August and the Integrity Line Reports continue to be reviewed on a weekly and monthly basis. Chair Newton stated this report was received as information.

D. Committee Self-Assessment Results

Chair Newton presented the Audit and Compliance Committee Self-Evaluation Survey Report reflecting survey results for 2016-2019. She noted that Audit and Compliance Committee members received an email requesting completion of the external auditor survey form. She asked that those completed forms be returned to her. Chair Newton stated this report was received as information.

VIII. Other Matters

Chair Newton called for any other matters to come before the committee. There were none.

MOTION FOR EXECUTIVE SESSION

Chair Newton called for a motion to enter Executive Session for the purpose of discussing a personnel matter related to a potential conflict of interest involving a faculty member and to receive legal advice regarding litigation filed against the University. Dr. Smith

so moved, and Mr. Westbrook seconded the motion. A vote was taken, and the motion carried unanimously.

Chair Newton stated no action would be taken during the discussion of the personnel matter or the receipt of legal advice, and that the Committee will only return to Open Session to adjourn the meeting. Therefore, those not invited to remain in Executive Session are dismissed. She invited the following to remain: Trustees, President Caslen, Secretary Heath, Mr. Parham, Dr. Harding, Dr. Haj-Hariri, Dr. Cooper, Ms. Rushton, Ms. Dunleavy, and Mr. Murray.

EXECUTIVE SESSION

**Executive Session Removed**

RETURN TO OPEN SESSION

IX. Adjournment

Chair Newton declared the meeting adjourned at 1:00 p.m.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "J. Cantey Heath, Jr.", is written above the printed name.

J. Cantey Heath, Jr.  
Secretary