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University of South Carolina

BOARD OF TRUSTEES

Audit Compliance and Risk Committee

October 9, 2020

The Audit, Compliance and Risk Committee of the University of South Carolina Board of Trustees met at 9:00 a.m. on Friday, October 9, 2020, in the Pastides Alumni Center Ballroom and via Microsoft Teams.

Committee Members present were Ms. Rose Buyck Newton, Chair; Mr. J. Egerton Burroughs; Mr. Brian C. Harlan; Mr. Richard A. Jones Jr.; Ms. Emma W. Morris; Mr. Charles H. Williams; Dr. C. Dorn Smith III, Board Chair; and Mr. Thad H. Westbrook, Board Vice Chair. Mr. Robin D. Roberts participated by Microsoft Teams video conference.

Other Board members present were Mr. Hubert F. Mobley; Ms. Leah B. Moody; Mr. Eugene P. Warr Jr.; and Mr. Mack I. Whittle Jr. Joining by Microsoft Teams video conference were Mr. C. Dan Adams; Mr. Alex English; Mr. Toney J. Lister; Mr. Miles Loadholt; Ms. Molly M. Spearman; and Mr. John von Lehe Jr.

Also present was USC Columbia Faculty Senate Chair Dr. Mark Cooper. USC Columbia Student Government President Ms. Izzy Rushton participated by Microsoft Teams video conference.

Others in attendance were President Robert L. Caslen Jr.; Secretary J. Cantey Heath Jr.; Vice President for Human Resources Ms. Caroline Agardy; Executive Director Institutional Research, Assessment, and Analytics Ms. Sabrina Andrews; President's Chief of

Staff Mr. Mark D. Bieger; Presidential Faculty Fellow Dr. Susan Bon; President and CEO University Foundations Mr. Jason Caskey; Executive Director of Strategic Planning Mr. Jack Claypoole; Interim Chancellor USC Upstate Dr. J. Derham Cole Jr.; Past President USC Alumni Association Mr. Robert F. Dozier; Chief Audit Executive Ms. Pamela Dunleavy; Chancellor Palmetto College Dr. Susan Elkins; Interim Chief Development Officer Mr. William Elliott; Associate Vice President of Finance and Budget Ms. Kelly Epting; Dean of College of Arts and Sciences Dr. Lacy Ford; Vice President of Information Technology and Chief Information Officer Mr. Doug Foster; Board of Trustees Governance Consultant Dr. Cameron Howell; Director of Enterprise Risk Management and Insurance Mr. Brian Hann; Chief Executive Officer USC Alumni Association Mr. Wes Hickman; Mr. Howard Houston of Elliott Davis; University Controller Ms. Mandy Kibler; Assistant to the President for System Affairs Mr. Eddie King; Executive Director Office of Economic Engagement Mr. Bill Kirkland; Executive Communications Director Ms. Sally McKay; Director of State Government Relations Mr. Derrick Meggie; General Counsel and Executive Director of Compliance Programs Mr. Terry Parham; Chief Operating Officer Mr. Jeff Perkins; Assistant Director of Institutional Research and Analytics Mr. Jonathan Poon; Vice President for Student Affairs and Vice Provost Dr. Dennis Pruitt; Special Assistant to the President Mr. James Smith; University Treasurer Mr. Joe Sobieralski; Director of Public Relations Mr. Jeff Stensland; Director of Athletics Mr. Ray Tanner; Executive Vice President for Academic Affairs and Provost Dr. William F. Tate IV; Vice President for Communications Mr. Larry Thomas; Executive Vice President and Chief Financial Officer Mr. Ed Walton; Vice President for Diversity, Equity and Inclusion Mr. Julian R. Williams; Associate Vice President and Chief of Police Mr. Chris Wuchenich; and Board support staff.

OPEN SESSION

I. Call to Order

Chair Newton called the meeting to order, welcomed everyone, and asked Trustees in the room to introduce themselves. Secretary Heath confirmed Committee member Mr. Robin D. Roberts was participating via Microsoft Teams video conference.

Chair Newton called on Mr. Stensland to introduce members of the press. Mr. Stensland advised there were no members of the press in attendance.

Chair Newton stated notice of the meeting and 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; and a quorum was present to conduct business.

Chair Newton invited Board Chair Dr. C. Dorn Smith III to introduce new members of the Board of Trustees, Mr. Brian C. Harlan and Ms. Emma W. Morris. President Caslen presented Mr. Harlan and Ms. Morris a Presidential coin.

MOTION FOR EXECUTIVE SESSION

Chair Newton stated there were personnel matters appropriate for discussion in Executive Session. She called for a motion to enter Executive Session and noted there would be no action taken. Mr. Jones so moved, and Mr. Burroughs seconded the motion. The vote was taken, and the motion carried.

The following were invited to remain: Trustees, President Caslen, Secretary Heath, Dr. Cooper, Ms. Rushton, members of the President's Executive Council, Chancellors, and Board support staff.

EXECUTIVE SESSION

–Executive Session Removed

RETURN TO OPEN SESSION

II. Review of External Audits

Chair Newton called on University Controller Ms. Mandy Kibler for a review of external audits.

Ms. Kibler stated with the Board's restructuring, the financial statement review and analysis would not be a part of today's Audit, Compliance and Risk Committee as it has been in the past. It would be presented next month at the Finance and Infrastructure Committee meeting. Secretary Heath, Mr. Sobieralski, Ms. Dunleavy, and Ms. Kibler have worked to align these two committees to ensure next year, in October, the fiscal year-end audit and the financial statement review and analysis would be presented on the same day. She provided a preview of the financial statement review and analysis that would be presented next month.

Ms. Kibler reported COVID-19 has impacted the physical and financial health of the University and required extensive planning to mitigate and respond to risks. Those financial impacts were in two primary areas: 1) refunds to students for housing, dining, parking, and transportation and 2) mitigation and response cost for personal protective equipment, cleaning, sanitation, virus testing and tracing. Despite COVID-19, the University maintained a solid financial position at June 30, 2020 reporting total assets of \$2.8 billion compared to \$2.7 billion at June 30, 2019 and an overall net position increase of \$27.6 million at June 30, 2020. In addition to ending the fiscal year in a solid position, the Controller's Office has worked to ensure the University is in position to accept and manage the additional federal funds and resources to offset the cost of COVID-19 which require significance compliance, review and oversight. Ms. Kibler introduced Mr. Howard

Houston with Elliott Davis to provide an overview of the 2020 Comprehensive Annual Financial Report (CAFR) audit and related engagements.

Mr. Houston provided an executive summary of the University Financial Statement Audit including the USC Columbia and Palmetto College Campuses. Regionals for fiscal year end June 30, 2020. He advised Elliott Davis issued an unmodified opinion on the University's financial statements and supplementary information for the year ended June 30, 2020. There were no significant or unusual matters noted and no material weaknesses in internal control identified. The University certified for approximately \$35 million in federal funding under the CARES Act Higher Education Emergency Relief Funding (HEERF), of which approximately \$13.5 million was recognized in non-operating federal grants and contracts on the Statement of Revenues, and Expenses, and Changes in Net Position for fiscal year end 2020. The COVID19 impacts Ms. Kibler mentioned reverberate throughout the financial statement disclosures. In context, management has done an excellent job of being transparent with those disclosures which are very important to the users of the financial statements.

Mr. Houston provided financial statement highlights, including the University's proportionate share of the unfunded pension liability of the SC Retirement Systems and unfunded other post-employment benefits (OPEB) liability of SC Retiree Health Care Plan for fiscal year end 2020. The Darla Moore School of Business PMBA program examination engagement was completed with no issues. Mr. Houston stated he looks forward to sharing at a future Board meeting the results of the Single Audit which issuance date is pending receipt of final compliance supplement and potential additional required procedures for COVID/HEERF, as well as, the NCAA agreed upon procedures audit for Aiken, Upstate and Columbia.

In closing, Mr. Houston advised IT procedures have become increasingly sensitive because of inherent risk in security. He explained that while Elliott Davis did not perform an IT audit, findings are reported as a result of walkthroughs of the University's key and significant internal controls.

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

III. Approval of Voluntary Separation Programs

Chair Newton called on Vice President for Human Resources Ms. Caroline Agardy for a presentation on Voluntary Separation Programs (VSP).

Ms. Agardy provided an overview of VSP for five colleges. She advised the Fiscal Year 2020-21 State Appropriations Bill allows agencies to implement programs to realign resources to include provisions for a separation incentive payment for employees. The VSP is a cost saving program which involves voluntary participation and requires employees to voluntarily separate from employment. The program must be approved by the President of USC and the State Human Resources Director based on the ability to demonstrate recurring cost savings over two fiscal years. Programs must be supported with existing funds and implementation of the program will be based on fair and objective criteria developed by the agency. All decisions made under the program by employees to retire or resign are voluntary and are not considered grievable or appealable. The participating employees may not return to the full-time employee (FTE) position for a period of two years unless they reimburse the University on a pro-rata basis. The University must report the results to State Human Resources by August 15 of the next fiscal year.

Five colleges have submitted voluntary separation programs for implementation based on their unique needs and budgets: 1) College of Arts and Sciences 2) College of Education 3) College of Engineering and Computing 4) College of Information and Communications and 5) College of Social Work. Only FTE positions are eligible. No employee who has submitted a notice of resignation/retirement which has been accepted prior to the VSP notification is eligible. Four of the five plans are available to both faculty and staff employees in FTE positions with at least ten years of University service as of the specified date of the program. The College of Arts and Sciences plan is only open to faculty with twenty-five years of service or more as of May 15, 2020. Each college has a limited number of slots it can offer, ranging from a low of three to a high of twenty.

Ms. Agardy advised projected cost savings for the current fiscal year was \$494,999; fiscal year 2021-22, \$6.4 million; and fiscal year 2022-23, \$6.4 million with a cumulative savings of \$13.3 million. The details of each program were posted to the Board portal prior to this meeting for review. If approved, the programs will be announced, and the employee must be offered forty-five calendar days from the date the employee receives notification of the VSP to consider participation. Participants must separate no later than December 31, 2020.

In response to an inquiry from Mr. Whittle, Dr. Ford advised the College of Arts and Science VSP will enable expansion of resources over the long term and is not a plan intended to reduce the tenured track faculty. Approximately seventy faculty members in the College have more than twenty-five years in position at the University. The retirement of faculty members ready to retire will allow savings, appropriate realignment, and will not reduce student-faculty ratio in the long term.

In response to an inquiry from Dr. Smith, Dr. Ford assured faculty was doing everything possible to deal with student and faculty “pandemic fatigue.”

Chair Newton stated if there was no further discussion, she would call for a motion to recommend approval of all five Voluntary Separation Programs as presented and posted on the Board portal. Mr. Burroughs so moved, and Mr. Williams seconded the motion. A vote was taken, and the motion carried.

Chair Newton stated the Voluntary Separation Programs will be presented as approved on the consent agenda in the full Board meeting later in the day.

IV. Enterprise Risk Management Update and Education

Chair Newton called on Mr. Brian Hann for an Enterprise Risk Management (ERM) update.

Mr. Hann advised the University began implementing a formal ERM program in 2015. Since that time, the University has adopted an International Quality Standard, or the International Organization for Standardization (ISO) guidance standard, which ensures implementation of a comprehensive, structured, robust, and credible ERM program.

He explained that ERM is a formal long term continuous risk management process led by senior leadership that extends the concepts of risk management and includes: 1) identifying risks across the entire enterprise; 2) assessing the impact of risks to the operations and mission; 3) developing and practicing response or mitigation plans; and 4) monitoring the identified risks, holding risk owners accountable, and consistently scanning for emerging risks. One of the greatest advantages of the program is a heightened awareness of risk and increased communication among stakeholders.

Although the ISO guidance standard is not subject to formal audit or certification, the University requested a formal external audit be developed and conducted on the ERM program. Phase one of the University's audit reviewed policies, procedures, and program guideline documentation compared to written ISO standards to ensure compliance. This was completed in February 2018. Phase two of the audit verified written documentation from Phase one was being followed and was completed in March 2019. Earlier this year, the University conducted a first surveillance audit which was completed in March 2020 and will recur on an annual basis. The surveillance audit has components of both Phase one and Phase two audits and confirms continued compliance and maintenance of the program. There were no major or minor nonconformances found.

Mr. Hann noted the University was involved in a research project sponsored by Texas Tech University which compared and assessed the overall maturity, development, and implementation of ERM programs at various colleges and universities throughout the country. USC scored the highest of twenty-two university ERM systems accessed.

Following the audits, program implementation involves aligning best practices published and recommended by the Association of Governing Boards (AGB), the Education Advisory Board, the University Risk Management and Insurance Association and other organizations. The University has focused on gathering more detailed information concerning risk identified by the ERM Executive Oversight Committee; high priority risk identified by Audit and Advisory Services; and risk committees, departments, risk owners, and subject matter experts. Mr. Hann presented an overview of the University's current ERM Organization Structure which includes representation from all levels of the organization and currently contains thirty risk areas. Utilizing this structure in 2019, five hundred risks were

identified and assessed, and the University also cataloged over two hundred training, communication, and work sessions. For the past four years, comprehensive annual reports containing information about the growing ERM structure were distributed to the ERM Executive Oversight Committee. Quarterly dashboard reports are distributed to the ERM Executive Oversight Committee and senior level committees. The AGB refers to ERMs as a process, not only implemented and maintained by senior administrators, but ultimately that informs the Board of key risk derived from the process.

Chair Newton reminded the Committee risk was added to the Audit and Compliance Committee and included in the charter for the newly form Audit, Compliance and Risk Committee. She thanked Mr. Hann and stated the report was received as information.

V. Review of Internal Audit and Advisory Services Tracking Reports

Chair Newton called on Ms. Pam Dunleavy for a review of Internal Audit and Advisory Services tracking reports.

Ms. Dunleavy provided an update on three audit reports included in the Board materials for this meeting.

A. Academic Course Delivery Methods Audit Report

The Academic Course Delivery Methods audit report executive summary outlined new learning environments fueled by the outbreak of COVID-19. The University has adopted a hybrid model, with an expansion of online instruction and concluding in-person instruction at the Thanksgiving break. Areas audited included 1) instruction and academic support 2) academic integrity 3) technological infrastructure 4) accessibility and resource availability and 5) global malware. Observations noted

included 1) establish and enforce a process for evaluating software purchases and 2) implementation of centralized information technology asset management program.

B. Athletics Stress Testing Audit Report

The Athletics Stress Testing audit report executive summary noted a sound stress testing methodology for forecasting the financial impacts of the pandemic on Athletic operations for fiscal year 2020-21. Areas audited included 1) review of Athletics fiscal year 2020-21 financial forecast and 2) review of significant Athletics contractual agreements. There were no reportable observations.

C. Student Care and Outreach Team Audit Report

The Student Care and Outreach Team audit report executive summary determined the Columbia Campus Care Team was properly managing its process and protocols within the scope of the review. There were no reportable observations for the Columbia campus. Opportunities for improvement at the System's Comprehensive University and Palmetto College included process and protocol improvement.

D. Tracking Report

Ms. Dunleavy highlighted outstanding audit items for review and follow up in the tracking report including a legal contracts database and South Carolina Research Foundation process improvements and cost benefit analysis.

Ms. Dunleavy introduced Mr. Bill Kirkland for review of the mission and purpose of the South Carolina Research Foundation (SCRF). Mr. Kirkland stated the SCRF was a 501 (c) (3) organization which allows the University to strategically grow its

research by providing flexibility for securing external funding. Mr. Whittle provided a background of the SCRF which was developed and implemented during his tenure as Board Chairman.

Chair Newton stated these reports were received as information.

VI. The Matrix and External Audits

Chair Newton advised members the updated committee matrix and external auditor's evaluation were provided on the Board portal for this meeting. She encouraged each member to review these materials and asked each Board member to complete the external auditor's evaluation by the October 18th deadline.

VII. Adjournment

As there were no other matters to come before the Committee, Chair Newton declared the meeting adjourned at 10:10 a.m.

Respectfully submitted,

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

J. Cantey Heath, Jr.
Secretary