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University of South Carolina
BOARD OF TRUSTEES

Audit and Compliance Committee

August 14, 2020

The Audit and Compliance Committee of the University of South Carolina Board of Trustees met at 10:00 a.m. on Friday, August 14, 2020, in the ballroom of the Pastides Alumni Center and by Microsoft Teams Audio Conference.

Members present were Ms. Rose Buyck Newton, Chair; Mr. Chuck Allen; Dr. C. Dorn Smith III; Mr. Thad H. Westbrook; Mr. Charles H. Williams; Mr. Mack I. Whittle Jr.; Mr. John C. von Lehe Jr., Board Chairman; and Mr. Hubert F. Mobley, Board Vice Chairman. Mr. J. Egerton Burroughs participated via Microsoft Teams audio conference.

Other Board members present were Mr. C. Dan Adams; Dr. C. Edward Floyd; Mr. Richard A. Jones Jr.; Mr. Miles Loadholt; Ms. Leah B. Moody; and Mr. Eugene P. Warr Jr. Participating via Microsoft Teams audio conference were Mr. Toney J. Lister; Ms. Leah B. Moody; and Ms. Molly M. Spearman.

Also present were USC Columbia Faculty Senate Chair Mark Cooper; USC Columbia Student Government President Issy Rushton; and Board of Trustees Special Advisor David Seaton.

Others present were President Robert L. Caslen Jr.; Secretary J. Cantey Heath Jr.; Vice President for Human Resources Caroline Agardy; President's Chief of Staff Mark Bieger; Presidential Fellow Susan C. Bon; Executive Director for Strategic Initiatives Jack Claypoole; Chief Audit Executive Pam Dunleavy; Palmetto College Chancellor Susan Elkins; Interim

Vice President for Development and Alumni Relations Will Elliott; Associate Vice President for Finance Kelly Epting; Board Governance Consultant Cameron Howell; University Controller Mandy Kibler; Assistant to the President for System Affairs Eddie King; Executive Director of Economic Engagement and Director Incubator Bill Kirkland; General Counsel Terry Parham; Associate Vice President for Administration and Finance and Medical Business Affairs Jeffrey Perkins; Vice President for Student Affairs and Vice Provost for Academic Support Dennis Pruitt; Assistant Vice President and Chief of Staff for the Division of Administration and Finance Joe Sobieralski; Director of Public Relations Jeff Stensland; Athletics Director Ray Tanner; Executive Vice President for Academic Affairs and Provost Bill Tate; Vice President for Communications Larry Thomas; Senior Vice President for Administration and Chief Operating Officer Edward L. Walton; and Board support staff.

Those participating via Microsoft Teams audio conference were Legislative Liaison Steve Beckham; USC Foundations President and CEO Jason Caskey; USC Upstate Interim Chancellor Derham Cole; College of Arts and Sciences Dean Lacy Ford; College of Engineering and Computing Dean Hossein Haj-Hariri; USC Beaufort Chancellor Al Panu; and Special Assistant to the President James Smith.

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 via Microsoft Teams audio conference. Chair Newton called on Mr. Stensland, who introduced members of the press as follows: Lucas Daprile with *The State* Newspaper, Jack Bingham with *The Daily Gamecock*, and John Whittle with *BigSpur.com*.

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.

MOTION FOR EXECUTIVE SESSION

Chair Newton called for a motion to enter Executive Session for the purpose of discussing a personnel matter. Dr. Floyd so moved, and Mr. Burroughs seconded the motion. A vote was taken, and the motion carried unanimously.

Chair Newton invited the following persons to remain: Trustees, President Caslen, Secretary Heath, Dr. Cooper, Ms. Rushton, Provost Tate, Mr. Parham, Dean Haj-Hariri, Mr. Matthews, Mr. Seaton, and Ms. Dunleavy.

EXECUTIVE SESSION

— Executive Session Removed

RETURN TO OPEN SESSION

II. Chief Audit Executive Annual Performance Appraisal

Chair Newton stated the Chief Audit Executive's annual performance review was discussed in Executive Session. She stated Ms. Dunleavy had a very positive review and thanked her for her hard work. Chair Newton called for a motion to approve Ms. Dunleavy's Annual Performance Appraisal as presented. Mr. Burroughs so moved, and Mr. Whittle seconded the motion. A vote was taken, and the motion carried.

III. Status Update on FY 2020 External Audits

Chair Newton called on Controller Mandy Kibler for a status update on FY 2020 external audits. Ms. Kibler provided a fiscal year end audit update. Adjustments to work during the Coronavirus-19 pandemic were made using Microsoft Teams and conference calls. She noted while internal control reviews were conducted with Elliott Davis via Microsoft

Teams, Audit & Advisory Services will assist with the on-campus inventory control reviews. Field work for the Financial Statement Audits and the Single Audit begins this week and will be conducted virtually over the next six to eight weeks. Weekly audit meetings with Elliott Davis and the Controller's Office are held every Thursday at which time audits status, outstanding items, and potential findings are discussed, as well as follow up on prior year findings. Weekly meetings with Audit & Advisory Services will begin next week as part of the year end field work. Everything is on schedule to issue the University Comprehensive Annual Financial Report (CAFR) by September 30, 2020, and the Columbia and Regionals shortly thereafter so that the Southern Association of Colleges and Schools Commission on Colleges (SACSCOC) reports can be updated. The single audit is on schedule to be issued in October 2020. NCAA AUP audits for Columbia, Upstate, and Aiken will be issued on schedule with a target date of September 30, 2020.

Ms. Kibler updated the Committee on four prior year single audit findings.

- Student Financial Aid – Findings typically relate to compliance and are often timed based on a prior year's finding that was not fully implemented until after the new fiscal year began. The Controller's Office is taking the lead on the Fiscal Operations Report and Application to Participate (FISAP) reporting with all the campuses to provide guidance and consistency of reporting information.
- Schedule of Expenditures of Federal Awards (SEFA) Report – A review of all expenditures and grants has been completed to ensure correct Catalog of Federal Domestic Assistance (CFDA) numbers. Guidance was provided to the Sponsored Awards Office on the need to establish full CFDA numbers.

IV. Committee Education – Executive Compensation

Chair Newton stated under the new committee structure, the issue of executive compensation would be the responsibility of the Audit, Compliance and Risk Committee. She asked Vice President of Human Resources Caroline Agardy to provide an overview of the University's Executive Compensation Plan. Ms. Agardy stated executive compensation encompasses vice presidents and direct reports to the President. She provided an overview of the compensation and benefits provided to those top leaders. The components include: base pay, supplements, deferred compensation, retirement benefits, life and medical benefits, and additional benefits such as housing, living expenses and transportation. In determining these benefits, consideration is given toward tax implications, regulatory requirements, public scrutiny, and private competition. Academic Administrator salaries are set based on tenure, field of study, and supplements. The initial salary of top executives is set at the fiftieth percentile by the Board of Trustees per the Bylaws and is based on market comparisons and qualifications as well as compensable factors. The Board also approves the hire. She stated the authority for issuing pay raises rests with the President in consult with Human Resources and that those raises are awarded by exception. Ms. Agardy advised that for most of the University jobs, the University recruits from higher education institutional peers; therefore, compensation is based on those peer comparisons. At the Board's request, an executive compensation study was conducted in 2019, which resulted in the number of system peers being expanded to twenty-seven public and five private institutions. The increase in peers demonstrates the University's diligence in making good faith efforts in determining appropriate compensation levels. Ms. Agardy opened the floor to questions.

Mr. Whittle stated although the issuing of pay raises rests with the President, he would

ask that peer comparisons as they relate to where our employees rank be provided to the Board annually through this Committee. He asked what mechanism is in place to measure top executive performance in relation to the Strategic Plan? Ms. Agardy stated the President evaluates his direct reports annually against the Strategic Plan, and noted those evaluations are not linked to pay raises. Ms. Moody noted not all positions within the University are exclusive to higher education and asked that market comparisons be factored in for those positions. Ms. Agardy agreed with Ms. Moody's observation and stated she would work to identify positions where market comparisons would be appropriate. Mr. Jones asked how the defined benefit plan differs from the defined contribution retirement plan. Ms. Agardy stated the Public Employee Benefits Authority (PEBA) has two retirement plans into which employees contribute nine percent to the plan of their choosing. One is the South Carolina Retirement System, which is a defined benefit plan. The other is the Optional Retirement Plan (ORP) in which the employee contributes a defined contribution. Dr. Cooper asked how diversity, equity and inclusion is factored when it comes to compensation? Ms. Agardy advised that when a top executive is a diverse candidate, there are times when they would be compensated greater than the fiftieth percentile. The fact that those positions are compared to peer institutions gives Human Resources the flexibility to make that adjustment. Ms. Moody asked if the University is operating in that vein for all positions in terms of pay equity. Ms. Agardy advised that any time a request is made to raise the salary of a position, an analysis is conducted to ensure there is equity. As a federal contractor, the University is required to conduct salary audits annually.

Chair Newton thanked Ms. Agardy for her educational presentation on Executive Compensation.

V. Audit & Advisory Services

A. 2020 Annual Report

Ms. Dunleavy stated the 2020 Annual Report, a copy of which was uploaded to the Board portal, provides an overview of the internal audit standards that drives the work of the audit team. The report summarizes audit work, risk assessments, and key advisory projects conducted this past fiscal year. In highlighting a few items in the report, she noted newly drafted standards of ethical conduct are being socialized with a goal of finalizing the standards in FY2020-21. The standards serve as a code of conduct for faculty and staff and is part of the President's strategic plan. A campus-wide quarterly newsletter was established, which discusses internal controls and leading best practices in those areas. The newsletter is distributed to hundreds of leaders and business support personnel across the University. Co-source IT audit firm Deloitte was engaged through a competitive bid process to assist with risk assessment this past year. They will conduct an IT cybersecurity audit in 2021 as a co-sourced opportunity. Ms. Dunleavy stated Audit & Advisory Services is moving towards a more data driven audit testing process by leveraging the University's PeopleSoft and Banner systems to help identify data trends and anomalies used to identify business process improvement opportunities.

In Fiscal Year 2019-20, 74% of Audit & Advisory Services efforts were focused on providing assurance and advisory services by performing audits, investigations, and advisory reviews. There was an underrun in the recurring budget by \$25,000, primarily due to the travel freeze resulting from the COVID-19 pandemic shut down. Training requirements were met with online offerings resulting in a savings of \$18,000 in travel

costs. The FY2019-20 Balanced Scorecard Results reflect progress against established goals. Overall, most of the goals were met; however, the pandemic impacted the ability to provide internal control and fraud training. Completion of the assurance audits was slightly delayed allowing clients time to react to the pandemic and establish their business processes within the pandemic environment.

The FY2020-21 Audit Plan was approved by the Board on June 19, 2020. The plan engagements were determined based on a risk assessment, which included discussions with management, information gained from other audits, and consideration of other external factors. Most of the planned audits will address high priority risk areas while others will provide audit coverage at the comprehensive universities and Palmetto College, as well as central business processes.

B. Tracking Report

Ms. Dunleavy reviewed the Audit Tracking Report reflecting that four issues have been resolved since the June meeting, 20 remain outstanding, and 13 are overdue. Mr. Whittle noted that the South Carolina Research Foundation has an outstanding issue related to policies, procedures, and structure. He expressed concern about entering a five-year contract with them without having policies and procedures in place and suggested this be discussed as part of governance.

C. Internal Audit Reports

Ms. Dunleavy briefed the Committee on the following internal audits.

1. IT Services Billing Model Audit Report

The IT Services Billing Model Audit was primarily a review of the system used to bill for IT services within the University. There was one finding related

to the monitoring user access permissions within that system.

2. NCAA Rules Compliance Audit Report

In the NCAA Rules Compliance Audit, eligibility rules education and Banner student coding were assessed. While there were no major compliance issues, there were a couple of opportunities identified for improving business practices related to training on the annual certification process, and providing consistency and processes used to gather degree certification supporting documents.

3. Procure-to-Pay Business Cycle and Vendor Management Audit Reports

The Procure-to-Pay Business Cycle and Vendor Management Audits are closely related to the University's purchasing process. Overall, the purchasing processes substantially comply with the University policies and state regulations. However, there are a couple of updates needed in University policies to reflect current practice. There are also improvement opportunities in terms of leveraging the University spend data to negotiate savings with vendors and evaluate vendor performance.

Chair Newton thanked Ms. Dunleavy and stated the 2020 Annual Report, the Tracking Report, and the Internal Audit Reports were received as information.

VI. Policy Reviews

Ms. Dunleavy presented revisions to the following Board policies for consideration and approval.

A. BTRU 1.18, Conflicts of Interest and Commitment

Changes proposed for the Conflicts of Interest and Committee Policy include

language to address risks to foreign entity relationships. There will be a corresponding change to the Annual Disclosure Form, which also asks about foreign entity relationships.

Chair Newton called for a motion to recommend Board approval of the proposed changes to BTRU 1.18, Conflicts of Interest and Commitment policy. Mr. Burroughs so moved, and Mr. Whittle seconded the motion. The vote was taken, and the motion carried.

B. BTRU 1.20, Dishonest Acts and Fraud

Changes proposed for BTRU 1.20 Dishonest Acts and Fraud policy include Scrivener corrections, title changes, and language to better represent the University System.

Chair Newton called for a motion to recommend Board approval of the proposed changes to BTRU 1.20, Dishonest Acts and Fraud policy. Mr. Allen so moved, and Mr. Whittle seconded the motion. The vote was taken, and the motion carried.

C. BTRU 1.24, Internal Control Policy

Changes proposed for BTRU 1.24 Internal Control policy include Scrivener corrections and language to better represent the University System.

Chair Newton called for a motion to recommend Board approval of the proposed changes to BTRU 1.24, Internal Control policy. Dr. Smith so moved, and Mr. Burroughs seconded the motion. The vote was taken, and the motion carried.

VII. Audit and Compliance Committee

A. External Auditor Evaluation

Chair Newton stated the External Auditor Evaluation conducted by the Committee and the Board was provided in the meeting materials and was received as information.

B. Committee Matrix Review

Chair Newton stated the Audit and Compliance Committee Matrix outlines the Committee's accomplishments to date. Committee Education and Quarterly Meeting with the President, COO, CFO, Internal and External Auditors have been planned for October 2020. She stated the Matrix was received as information.

VIII. Other Matters

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

IX. Adjournment

Chair Newton declared the meeting adjourned at 11:20 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