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University of South Carolina
BOARD OF TRUSTEES

Audit and Compliance Committee

December 15, 2015

The Audit and Compliance Committee of the University of South Carolina met at 10:05 a.m. on Tuesday, December 15, 2015, in the Alumni Center Boardroom.

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. Charles H. Williams; Mr. Eugene P. Warr Jr., Board Chairman; and Mr. John C. von Lehe Jr., Board Vice Chairman.

Other Board members present were: Mr. Chuck Allen; Mr. Mark W. Buyck Jr.; Mr. Thomas C. Cofield; Mr. A. C. "Bubba" Fennell III; Dr. C. Edward Floyd; Mr. William C. Hubbard; Mr. William W. Jones Jr; Mr. Toney J. Lister; Mr. Miles Loadholt; and Ms. Leah B. Moody.

Chairman of the Faculty Senate August E. "Augie" Grant and Student Government President Jonathan Kaufman were present.

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; Provost Joan T. A. Gabel; Vice President for Student Affairs Dennis A. Pruitt; Vice President for Research Prakash Nagarkatti; Vice President for Development and Alumni Relations Jancy Houck; Vice President for Information Technology William F. Hogue; Vice President for Human Resources Chris Byrd; Vice President for Facilities and Transportation Derrick Huggins; Associate Vice President for Administration and Finance and Medical Affairs Jeffrey L. Perkins III; Executive Director of Audit & Advisory Services Pam Doran; Chief Communications Officer Wes Hickman; Athletics Director Ray Tanner; Vice President for System Planning Mary Anne Fitzpatrick; Palmetto College Chancellor Susan Elkins; USC Aiken Chancellor Sandra Jordan; USC Beaufort Chancellor Al Panu; USC Upstate Chancellor Thomas Moore; Senior Vice Provost and Dean of Graduate Studies Lacy Ford; Darla Moore School of Business Dean Peter Brews; South Carolina College of Pharmacy Interim Executive Dean/USC Campus Dean Randall C. Rowen; Executive Director for the Office of Economic Engagement William D. "Bill" Kirkland; Executive Director for the My Carolina Alumni Association Jack W. Claypoole; Executive Director of Business Operations at University Technology Services Bob Swab; University Controller Jennifer Muir;

University Treasurer Pat Lardner; Director of Facilities Planning and Programming and University Architect Derek S. Gruner; Director of Facilities Design and Construction Jeffrey D. Lamberson; Assistant Director, Facilities Design and Construction, Thomas Opal; Chief Financial Officer, Athletics Department, Jeff Tallant; Executive Assistant to the President for Equal Opportunity Programs Bobby D. Gist; Director of Academic Programs, Provost's Office, Kristia Finnigan; Audit & Advisory Services Assistant Director Glenn Murray; Managing IT Audit Consultant, Audit & Advisory Services, Roscoe Patterson; Senior Audit Consultant, Audit & Advisory Services, Kimberly Dwiggin; Director of Financial Reporting, Controller's Office, Sandy Smith; Chief of Staff, President's Office, J. Cantey Heath Jr.; Executive Vice Chancellor for Academic Affairs, USC Aiken, Jeff Priest; USC Trustee Emeritus William Bethea; Ann Loadholt, wife of Trustee Miles Loadholt; Cynthia Lister, wife of Trustee Toney Lister; Lee Bussell, a former President of My Carolina Alumni Association; Tom McNeish with the audit firm of Elliott Davis Decosimo, LLC; University Technology Services Production Manager Matt Warthen; and Board staff members Debra Allen, Terri Saxon and Ina Wilson.

I. Call to Order

Chairman Smith called the meeting to order, welcomed those in attendance and asked them to introduce themselves. Mr. Hickman stated that Andy Shain with *The State* newspaper was in attendance. 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. External Audits

Chairman Smith called on Mr. McNeish with Elliott Davis Decosimo (EDD) to present the external audits. Mr. McNeish began his presentation by noting it was the first time that all required external audits were presented prior to calendar yearend, which he said was a testament of the fine work of the Controller's Office providing data in a timely manner.

A. Fiscal Year 2015 Innovista Garages (Discovery and Horizon)

EDD audited the financial statements of the Horizon and Discovery garages as required by the loan related to the development of these facilities that are owned by the Columbia Parking Facilities Corporation. The debt for the Discovery garage is serviced by the revenue from both facilities.

Mr. McNeish explained that as of fiscal year 2015, the University continued to subsidize the garages, although the deficit was dramatically reduced due to the opening of the Darla Moore School of Business

(DMSB). Future plans to resolve the deficit would require parking rate increases and plans were being developed to bring these garages into the University's full parking operation, he said.

Trustee Mobley asked if Mr. Walton and Ms. Brunelli would evaluate the operational pro-forma of the two garages, since the return on the investment thus far was below what was projected. Mr. Walton said that currently, the two garages were only \$77,000 below on projected revenue, which was mostly due to recent equipment replacement. The administration is working on a plan that will probably redo the way USC operates all its parking garages; and when completed he will present it to the Building and Grounds Committee.

Trustee Fennell said there was a \$4 million bond payment on the Horizon and Discovery garages that was due in March 2017. Ms. Brunelli clarified that there was actually a taxable and a non-taxable debt, and that the administration was exploring options to refinance the debt at a lower rate.

B. Fiscal Year 2015 System Campus Financial Statements

Mr. McNeish said that as required for accreditation, EDD audited the financial statements for the USC Columbia campus along with the four regional campuses, and separately audited USC Aiken, USC Beaufort and USC Upstate. The Board had been provided a copy of the financial statements. Mr. McNeish responded to questions about the University's unfunded portion of the state pension. He said that starting in 2015 this liability was required to be included in the statements.

C. Darla Moore School of Business Professional MBA Engagement

The State of North Carolina requires that any higher education institution doing business in North Carolina provide evidence of a guaranty tuition bond equivalent to the amount of tuition paid by the state's residents. This requirement is necessary for the DMSB Professional Master of Business Administration Program. EDD affirmed that the bond was sufficient.

D. North Carolina Intern Engagements

Similar to the above requirement by the State of North Carolina, Mr. McNeish explained that the University must have in place a guaranty tuition bond to cover any experiential learning courses offered in North Carolina. This is a new requirement as of 2015. EDD's audit determined that the bond in place was sufficient.

E. Fiscal Year 2015 USC Columbia Athletics Agreed Upon Procedures

F. Fiscal Year 2015 USC Upstate Athletics Agreed Upon Procedures

The National Collegiate Athletic Association (NCAA) Bylaws require that certain financial procedures be performed related to the Athletics Departments for USC Columbia and USC

Upstate. EDD tested various financial entries that include revenues, expenditures and transfers; reviewed student activity fees, contributions, and third-party support; and evaluated contractual arrangements. No exceptions were found as a result of these procedures. The Athletics Departments reconcile the Statement of Revenues, Expenses and Transfers back to the University Financial Statements.

Chairman Smith thanked Mr. McNeish for his informative report.

III. OneCarolina Update

Chairman Smith called on Dr. Hogue to provide an update on the OneCarolina Project which was launched as part of the University's Strategic Plan to modernize business processes.

Dr. Hogue said that the biggest challenge of OneCarolina is to focus on business process transformation and to ensure a single authoritative data source. He said that staff had met many challenges during the effort to move forward with the system-wide implementation of OneCarolina. With the Trustees' support of Secure Carolina he said, strides also had been made to increase the security posture of the University.

In Fall 2013, the first component of OneCarolina went live with Banner (the student information system with which students interact from admissions to graduation). During 2014, efforts were made to stabilize Banner; and modifications to the system continued in 2015 and will continue into 2016. Dr. Hogue noted that students had embraced the new system well and the faculty and staff were becoming increasingly comfortable with it.

In July 2015, the University went live with PeopleSoft Finance (General Ledger, Budget, Procurement, Accounts Payable, Grants and Contracts, and Capital Projects). Stabilization issues arose during the implementation and were being addressed. Dr. Hogue said that April 30, 2016, was the target date for a stable system to provide required financial reporting.

Dr. Hogue reported that the go-live date of January 2016 for the Human Resources (HR) component had been postponed until the PeopleSoft Finance component was stabilized. Trustee Whittle asked if the instability issues would affect the ability to produce yearend financial statements. Ms. Brunelli said she shared his concern and had hired a consultant to focus solely on the financial statement aspect of the system. The consultant was scheduled to begin work in January 2016.

Dr. Hogue said that to-date, \$87 million of the \$95 million authorized budget for the project had been spent and that he planned to present the Board a request for additional funding. Trustee Jones asked him how much additional funding was needed to complete the OneCarolina project. Dr. Hogue

responded that he would have a better feel in 60 days and that he planned to present a comprehensive report on OneCarolina at a Board meeting in either February or March 2016.

Trustee Westbrook asked if the need for increased funding was related to PeopleSoft issues or OneCarolina. Dr. Hogue said that the system itself was not broken, that the extra cost was associated with getting the right expertise in place. Ms. Brunelli clarified that the University had more than 100 programs that had to tie into PeopleSoft, such as the parking and the housing systems. She noted that implementation of the student registration component had been the smoothest thus far.

Dr. Hogue noted that in addition to the Banner Implementation Audit, Internal Audit was now integrally involved on the frontend of the PeopleSoft implementation. He concluded his presentation by noting that he and his team enjoyed a positive working relationship with Ms. Doran and her staff.

Chairman Smith thanked Dr. Hogue for his informative report and asked him if he anticipated a “go-live” date of January 1, 2016, or 2017, or 2018 for the HR/Payroll component of PeopleSoft. Dr. Hogue responded that the OneCarolina team was not yet certain of a “go-live” date. Chairman Smith asked Dr. Hogue for an estimated “go-live” time schedule in his next report.

IV. Internal Audits/Reviews

Chairman Smith called on Ms. Doran.

A. Banner Student Information System Post-Implementation Review

Ms. Doran discussed the approach for auditing new system implementations consisting of pre- and post-implementation reviews and the purpose of these reviews. She indicated that a pre-implementation review was not performed for the new Banner Student Information System since it had been implemented prior to her tenure and an IT internal audit function.

Ms. Doran noted that an audit does not guarantee a project’s success, but serves as a checkpoint in the process to help increase the probability of success. Implementation of a new system takes at least six months to stabilize; therefore the expectation for all processes to work properly at implementation was unrealistic. She explained that Banner was a complex system that required technical support and significant changes to University business processes, which meant a lot of training and communication.

The audit was primarily limited to the financial, operational and information technology activities related to the Banner implementation. Seven finds were reported in the Banner Post-Implementation Review that recommended procedures to strengthen the project management process used in future system implementations, and improvements to functional and technical components of the Banner system.

Ms. Doran said that efforts were underway to address the concerns in the report. The seven recommendations were:

- **User Requirements and Project Scope** – The functional areas and faculty should outline their needs related to portal functionality, determine if a portal strategy fulfills their needs, and collaborate with University Technology Services (UTS) to implement a plan for ensuring the needs are addressed.
- **Testing Results and Approvals** – UTS should strengthen its testing methodology and related processes. At a minimum, UTS should establish test results and user sign-off documentation standards, a retention period, and a filing structure for retrieval purposes.
- **Information Security** – Data stewards should collaborate with UTS to establish a process for conducting periodic review of user access. UTS should activate logging for privileged user accounts and require justification whenever activity occurs. Additionally, access and activities should be monitored on a continuous basis. UTS and the functional areas should continue their efforts to define user roles and implement role-based security.
- **Data Definitions** – A data dictionary would provide clear definitions to facilitate efficient and accurate reporting. The recommendation is to leverage the new position of Chief Data Officer (CDO) to accelerate efforts to develop a data dictionary for addressing undefined data elements in Banner. For future system implementation projects, the CDO should be included to facilitate the assessment, identification, and implementation of data dictionary strategies. A data dictionary may save time, effort, and resources related to fixing erroneous reports and data.
- **Historization and Year-over-Year Reporting** – Sufficient resources should be provided to develop and implement historization of data and year-over-year reports in a timely manner.
- **Disaster Recovery and Business Continuity** – The functional areas, in collaboration with UTS, should conduct a business impact analysis for Banner, and identify an acceptable recovery time in the event Banner is unavailable. As part of the analysis, they should determine if the risk of not having a continuity plan is acceptable. In the meantime, UTS should expand the recovery plan for the Banner system to include recovery in the event the University Data Center is inoperable. The following should be considered at a minimum: offsite tape restoration, vendor contacts, equipment needs, facilities, primary and secondary contact lists for critical members of the recovery team, and periodic recovery walkthroughs and needs assessment.

- Compliance Reporting – It was recommended that the Office of Institutional Research and Assessment continue reconciling the Commission on Higher Education IDs in a timely manner.

B. Time and Effort Reporting

The audit primarily focused on the accuracy, timeliness and completeness of the certification process for calendar year 2014. With the exception of findings related to training and Human Resources/Payroll processes that impact the time and effort (T&E) reports, the risk-based audit determined that Contract Grant and Accounting (CGA) was properly managing, in all material aspects, the T&E reporting process within the scope of the review in accordance with federal and state regulations and University and departmental policies and procedures. None of the three findings noted in the audit were material to the financial statements. Ms. Doran said that efforts were underway to address the concerns in the findings. The recommendations were:

- Time and Effort Training – At a minimum, CGA should provide mandatory training for principal investigators. Training will strengthen the T&E certification process and enhance the overall understanding of effort reporting. CGA management should ensure policy guidance is kept current with changes resulting from the implementation of PeopleSoft Finance, Human Resources/Payroll modules, as well as a T&E application.
- Time and Effort Data Accuracy – To mitigate the risk of T&E reports generating inaccurate and incomplete data, CGA management should work with UTS to correct issues related to programming or implement alternate procedures to ensure accurate T&E reports until the T&E system is replaced. In addition, CGA management should work with Payroll and Human Resources to enhance its understanding of how payroll and human resource data affects the accuracy and completeness of T&E reports. The T&E reports should be re-certified for any issues noted above that affect the original certification.
- Salary Cost Transfers – Payroll should take greater care to ensure transactions are accurately processed and adequate documentation is maintained. The T&E reports should be re-certified for errors affecting the accuracy of the information. To provide adequate oversight, a sample of payroll adjustment journal entries should be reviewed periodically by management.

C. English Programs for Internationals Internal Control Report

The report addressed opportunities to strengthen policies related to purchasing and travel reimbursement. The audit recommendation was for the Purchasing Department management to strengthen language within University Policy BUSF 7.00 Purchasing to remove any ambiguity relating to the use of direct expense vouchers (DEV)s to claim reimbursement for University business travel. The

policy should include language to minimize the use of personal credit cards when other methods are available. In addition, it was recommended that management research the possibility of adding a statement to the PeopleSoft Payment Request screens, where the employee or student seeking reimbursement will attest that other procurement methods were unavailable. Also recommended was for management to research the development of a purchasing matrix to provide additional guidance on procurement methods and when each method should be utilized.

In addition, the auditor recommended the Controller's Office strengthen language within University Policy FINA 1.00 Travel to prohibit the practice of being reimbursed for expenses incurred on behalf of others.

Ms. Doran said that efforts were underway to address the concerns in the findings.

D. Tracking Report

Out of the 26 findings noted in Ms. Doran's report, 11 were new as of this meeting and four had been implemented. The remaining 11 findings from audits of Student Health Services – HIPPA Security Assessment, Capital Project Management, Capital Debt Management, and the Center for Manufacturing and Technology (CMAT) Internal Control Review were on track for completion. Some of the delays in addressing these findings were due to stabilization issues in implementing the new financial system.

V. Audit and Compliance Committee Matrix Review

Ms. Doran informed the committee that an updated matrix had been provided on the Board Portal.

VI. Other Matters

Chairman Smith called for a motion to enter Executive Session for a personnel matter. Trustee Bethea so moved and Trustee Whittle seconded the motion. The vote was taken and the motion carried.

Chairman Smith invited the following persons to remain: Trustees, President Pastides, Secretary Stone, and members of the President's Executive Council.

EXECUTIVE SESSION

RETURN TO OPEN SESSION

Chairman Smith called for any other matters to come before the committee. Trustee Allen asked for clarification of the creation of five quality control coordinator positions mentioned on Page 2 of the USC Columbia Agreed Upon Procedures, which was presented earlier in the meeting. Mr. Tanner responded that the position title would change from coordinator to analyst and that employees would not be allowed to coach on the field.

VII. Adjournment

Since there were no other matters to come before the committee, Chairman Smith called for the meeting to adjourn at 11:20 a.m.

Respectfully submitted,

Amy E. Stone
Secretary