

Minutes of the Audit and Compliance Committee Meeting
University of Kentucky
Friday, September 13, 2019

The Audit and Compliance Committee (ACC) of the University of Kentucky (UK) met on Friday, September 13, 2019, in the Gatton Student Center, Ballroom A, 160 Avenue of Champions, Lexington, Kentucky

A. Call to Order

Chair Claude “Skip” Berry III called the meeting to order at 8:30 am.

B. Roll Call

The following members of the ACC answered the call of the roll: Claude “Skip” Berry III, Jennifer Barber, Kimberly McCann, Robert Vance, and Elizabeth McCoy.

C. Approval of Minutes

Chair Berry reported that the minutes of the June 21, 2019, ACC meeting had been distributed. Trustee McCoy moved for approval of the minutes and Trustee Vance seconded the motion. The minutes from the June 21, 2019, ACC meeting were approved as presented.

D. University of Kentucky Internal Audit 2019 Annual Report and Metrics

Julie Hoover-Ernst, University of Kentucky Internal Audit’s (UKIA) External Liaison, began by reviewing the growth of UKIA over the years and the evolution of the department’s activities from focusing almost solely on cash audits during its early years to the nine services UKIA currently offers, which include comprehensive audits, business reviews, and repetitive audits that focus on processes such as procard use, cash handling, and non-exempt overtime compensation. Ms. Hoover-Ernst then introduced Martin Anibaba, University of Kentucky Internal Audit Director.

Mr. Anibaba shared UKIA’s top three achievements during Fiscal Year 2019, the first of which was an improved audit universe system which enables UKIA to conduct more thorough assessments across the University and allows UKIA to focus on emerging risks in each enterprise division. Mr. Anibaba then used UKIA’s non-exempt overtime compensation (NOC) audits as an example to explain how UKIA shared this information with its partners across the University who expressed concerns about NOC being an issue in their areas. Mr. Anibaba emphasized that UKIA’s risk-based system, while not foolproof, is a good indicator of the University’s emerging risks.

Mr. Anibaba discussed UKIA’s partnerships with several units across campus, one of which is UKIA’s collaboration on the College of Medicine expansion project. UKIA had

been invited to participate in this project to complete a front-end review in which potential pitfalls and areas of risk are highlighted. He pointed out that UKIA's partnerships and collaborations are perfect examples of how the University is better when all units work together, which was the overall theme of the Annual Report.

Mr. Anibaba then described UKIA's executive dashboard, which is distributed monthly to University administrators to update them on the status of audit activity in their enterprise division.

He talked about the training and team activities in which all UKIA auditors participate and how such continuous education is essential to the success of the operation. "Each auditor is expected to complete 40 to 60 hours of training every year." Some examples of this training includes the College Business Management Institute (CBMI) held at UK every summer, as well as the Kentucky Auditors meeting, which is hosted annually by UKIA.

Ms. Hoover-Ernst continued by highlighting the teamwork and collaboration occurring with students through UKIA's internship program. "UKIA is in its 11th year working with Dr. Urton Anderson's Auditing class, whose students perform audits directly with the audit staff." She stated that UKIA also had an intern who assisted the communication staff with UKIA's administrative manual, blog, and audit reports over the summer. She shared that "their enthusiasm and energy is contagious."

Mr. Anibaba continued by updating the Audit and Compliance Committee on UKIA's activity. He explained that 85 percent of the staff's time was focused on constructive work with the remaining 15 percent spent on general and administrative tasks. He broke down the 85 percent even further, describing how 78 percent was devoted directly to audit projects, which equates to 15,974 hours. He then broke this down by enterprise division, with 32 percent being in Finance and Administration, 29 percent in University of Kentucky HealthCare (UKHC), 23 percent in Academic units, 12 percent in Campus Operations, with the remaining three percent supporting UK Administration generally. He went on to explain that UKIA continues to stay engaged with the client, through the remediation of the findings that are identified. UKIA also has followed up on 25 percent of overall observations identified during comprehensive audits this year. He continued by explaining that this ties into UKIA's partnership and collaboration activities across campus.

Mr. Anibaba proceeded to discuss the types of audits that UKIA had completed in Fiscal Year 2019: 16.7 percent were inquiries which do not always expand into investigations; 13 percent were comprehensive reviews. He explained that these audits normally take 16 weeks to complete, but this year's comprehensive audits took an average of 43 weeks. He also shared that 16.7 percent of the projects completed were consultations that resulted from 39 departments who contacted UKIA to request assistance.

Mr. Anibaba concluded by sharing the results of the client satisfaction surveys that UKIA sends to its clients. Based on a five-point scale, UKIA received a three-point rating in client satisfaction, a 4.3 rating for its work related to partnerships, and a 4.4 rating for its training programs. He then discussed a new metric that UKIA has implemented, remediation, which uses follow-up results to measure how well risks noted in the initial audits had been mitigated. Mr. Anibaba shared that 65 percent of UKIA's findings had been mitigated prior to the follow-up reviews.

Trustee Barber asked Mr. Anibaba about the scope of comprehensive audits and if that was based on the audit period, and how UKIA knew when an audit began and when it ended.

Mr. Anibaba replied, explaining that while the name is a little misleading, comprehensive audits are UKIA's core reviews and that they encompass a business review, an operational review, a financial review, and an information technology review, which enables UKIA to look at all of a unit's processes.

Trustee Barber asked whether these audits were typically for a certain period.

Mr. Anibaba replied that they are structured for a certain period but may exceed this time frame. At this point Mr. Anibaba introduced Joe Reed, Chief Audit Executive of the University of Kentucky.

E. University of Kentucky Internal Audit University of Kentucky HealthCare Activity Update

Joe Reed, University of Kentucky Chief Audit Executive, began by presenting a picture of UKIA's team and discussed their continual focus on learning. He reiterated Mr. Alibaba's discussion regarding attendance at conferences, which allows UKIA to learn more about operations, increasing UKIA's ability to add value.

Trustee Grossman commended Mr. Reed on the diversity of the UKIA team, adding that administrators are sometimes criticized when they do not have a diverse team.

Mr. Reed thanked Trustee Grossman.

Trustee Christian asked if it was difficult to fill openings within the Department because of the specific training, and expertise needed in those positions. Trustee Christian then inquired if UKIA had enough staff to do the job that needed to be done.

Mr. Reed replied that yes, UKIA was sufficiently staffed except for a vacant Information Technology position which is difficult to fill due to the expertise needed. Mr. Reed explained that UKIA was taking its time looking for the right fit for the position.

Mr. Reed updated the Committee on UKIA's activities with one of UKIA's enterprise divisions, UK HealthCare (UKHC), which includes hospital outpatient and ambulatory clinics. He explained that UKIA's first question before working in any enterprise division was: "What does the entity look like?" He stated that UKIA views UKHC through its six business risk factors: public exposure, materiality, external factors, operational control environment, information technology (IT) control environment and audit duration. He shared that, from UKIA's perspective, public exposure is the highest risk to UKHC.

Mr. Reed then explained, "UKHC is accustomed to auditors being 'in their shop,' and that, at any given time, there may be several auditors in an area. The perception is that an auditor is an auditor is an auditor. However, that is not the case with UKIA. External regulators or external auditors do not know the operation better than UKIA does. When an entity is highly regulated, you must understand what is going on. UKIA makes sure that we understand what is going on with those regulations." He explained that UKIA also is aware of the current cost-saving measures that are in place and the efficiency improvements that are underway that will create a strategic transformation of UKHC.

Mr. Reed continued by providing an example of UKHC's control environment. "There are about 9,000 employees within the enterprise and there is a risk involved managing personnel in that environment." Mr. Reed explained that with leadership changes, the direction of the enterprise may change, so being aware of such changes also is important for UKIA. Mr. Reed stated that changes to strategic plans permeate the entire enterprise. UKIA knowing this information shapes the planning process and helps to determine what UKIA is going to do. Mr. Reed went on to discuss the risks with ancillary locations, explaining that, "whenever you have locations away from the 'mothership' per se, there is a risk." Mr. Reed added that the new Electronic Health Record coming on board, as well as numerous other critical applications, contribute to UKIA's control environment risk factor.

Mr. Reed shared that UKIA's health care activities largely center on dispensing medication, compliance with the Health Insurance Portability and Accountability Act (HIPAA), and information technology, including cybersecurity, disaster recovery infrastructure, asset management, and mobile device management. Mr. Reed explained that health information management, billings and collections, charge capture, and coding were all being analyzed as these activities are important. Additionally, UKIA is focused on contract management, tracking transactions, and cash management, as well as manual and electronic coding.

Mr. Reed reviewed UKIA's hours associated with UKHC. In Fiscal Year 2019, UKIA spent approximately 29 percent of its time, or about 4,500 hours, in UKHC. Mr. Reed then shared that UKIA completed 56 reviews in UKHC between FY 2016-17 and FY 2018-19. Due to this, UKIA made the decision to dedicate two full-time equivalents (FTE) to UKHC audit work. Mr. Reed then introduced this dedicated team, Mr. Wes Justice, an Informational Technology auditor, and Mr. Curtis Barnhart, a business auditor.

Mr. Reed discussed the committees around campus involving UKHC. Mr. Reed shared that UKIA also has an internal committee comprised of six people which meets biweekly to discuss UKHC issues.

Trustee Vance stated that he is concerned about the results when he looked at six audits in pharmacy that need a follow-up to be performed. He asked if Mr. Reed would say UKHC is doing a fair job, a good job, or a great job. He also asked Mr. Reed if he thinks UKIA has found minimum concerns or if UKIA has found foul play.

Mr. Reed responded that the number of follow-ups does not reflect issues of ongoing concern, as they are done to verify that the original concerns have been appropriately mitigated.

Trustee McCann asked a question regarding the increase in enrollment, and if Mr. Reed foresaw a reallocation of UKIA's resources. She then stated that she assumed an increase in enrollment would impact things for UKIA.

Mr. Reed stated, "Yes, this does increase our exposure and affect our risk assessment. By looking at UKIA's risk assessment, it becomes clear that, with the higher enrollment, there is greater risk in the academic units, and with student fees. Mr. Reed stated that UKIA will need to reallocate its resources based on current infrastructure.

F. Other Business and Adjournment

With no further business, Chair Berry asked for a motion to adjourn. The motion was made by Trustee Barber and seconded by Trustee McCoy. The motion carried, and the meeting was adjourned at 9:31 a.m.