

Minutes of the Audit and Compliance Committee Meeting
University of Kentucky
Monday, December 9, 2019

The Audit and Compliance Committee (ACC) of the University of Kentucky (UK) met on Monday, December 9, 2019, in the Gatton Student Center, Ballroom A.

A. Call to Order

Chair Claude "Skip" Berry III called the meeting to order at 1:00 p.m.

B. Roll Call

The following members of the ACC answered the call of the roll: Claude "Skip" Berry III, A.C. Donahue, Kimberly McCann, Elizabeth McCoy, Derrick Ramsey, and Sandra Shuffett.

C. Approval of Minutes

Chair Berry reported that the minutes of the September 13, 2019, ACC meeting had been distributed. Trustee McCoy moved for approval of the minutes and Trustee Shuffett seconded the motion. The minutes from the September 13, 2019, ACC meeting were approved as presented.

D. University of Kentucky FY2018-19 External Report

Mary McKinley, Partner, Baird, Kurtz and Dobson, LLC (BKD) opened the meeting by presenting the results of the UK FY2019 Financial Statement Audit. Ms. McKinley shared that there are unmodified opinions, which are equivalent to a clean audit opinion, on each of the financial reporting elements BKD is required to present. She then discussed the audit of compliance under the Office of Management and Budget (OMB) Uniform Guidance, which are federal funds auditing standards that are required to be tested.

Ms. McKinley explained that there are certain estimates to which BKD pays close attention during the audit process: the allowance for doubtful accounts and pledges receivables, the self-insurance liabilities for medical malpractice, workers compensation, and health insurance.

Ms. McKinley pointed out certain financial statements' disclosures which are not unusual. She shared that BKD focuses on the self-insurance liabilities, revenue recognitions with the health care facilities, and the condensed financial statements that outline the various components of the University's financial statements. She noted that there are several pages devoted to the financial statement footnote disclosures regarding the other post-employment benefit plan and the long-term disability plan.

Ms. McKinley discussed three adjustments, the first of which was an adjustment related to the accounting for the extension of the JMI Sports contract which resulted in a \$7.5 million change in the accounts receivable balance. The other two adjustments were related to UK HealthCare: a \$5.5 million adjustment for a Medicare receivable related to a disproportionate share of payments, and a \$2.3 million adjustment related to prepaid expenses and accounts payable that was paid after year-end and therefore needed to be reversed off the prepaid account.

Ms. McKinley noted that the last adjustment at the University and the UK Research Foundation level related to unearned revenues associated with capital funding. She explained that it was grant funding that was received in advance, primarily related to capital projects that needed to be reclassified from a current asset and liability structure to a long-term capital project asset.

Ms. McKinley wrapped up her discussion with an overview of the University financial statements. She was pleased that there were no material weaknesses or significant deficiencies with internal controls and pointed out that, even with \$529 million in federal award expenditures subject to testing, they found no internal control matters regarding compliance.

Ms. McKinley closed by mentioning the wonderful cooperation BKD received from University administration.

E. BKD Agreed-Upon Procedures Reports

Susan Krauss, University of Kentucky Treasurer, discussed BKD's agreed-upon procedures (AUP) reports related to the National Collegiate Athletic Association (NCAA), Kentucky Medical Services Foundation (KMSF), and Eastern State Hospital/Central Kentucky Recovery Center. These reports were prepared at the University's request. Ms. Krauss first discussed the Intercollegiate Athletics Program AUP as required by NCAA by-laws. This review is performed to verify the accuracy and completeness of financial data prior to submission to the NCAA. The review found no items of concern. The final report submitted to the NCAA will be provided to the Athletics Committee at the February 2020 meeting.

Ms. Krauss then discussed the AUP report related to KMSF. This review is part of the ongoing monitoring of the University and KMSF contract to assess various compliance items. No significant items of concern were noted.

Ms. Krauss concluded with a discussion of the AUP report to review contract compliance between the University and the Kentucky Department of Behavioral Health, Developmental, and Intellectual Disabilities for the Management of Eastern State Hospital and the Central Kentucky Recovery Center. The various procedures were performed on a budget to actual statement of activity in order to verify the accuracy

and completeness of those statements as well as verify the amounts and funds provided to the University during FY2018-19. There were no items of concern.

F. University of Kentucky Internal Audit Process Review

Mr. Martin Anibaba, University of Kentucky Internal Audit (UKIA) Director, reviewed the UKIA Audit Process primarily for the purpose of providing additional information related to a question posed at the September 2019 ACC meeting regarding the average audit duration of 43 weeks presented during the 2018 Audit Metric review.

Mr. Anibaba explained that UKIA computes audit duration from the date the audit is announced to the date of the closing meeting. Mr. Anibaba then reviewed the audit duration metrics for FY2016-17, FY2017-18, and FY2018-19, focusing on FY2018-19's aberration of 43 weeks, which was driven largely by UKIA's shifting focus and employee turnover.

Mr. Anibaba provided the ACC with a detailed example of the audit which negatively affected the FY2018-19 audit duration of 43 weeks. This audit was Network Medical Devices, which began in FY2016-17, and had a duration of 68.6 weeks, ending in FY2017-18. Mr. Anibaba reviewed the causal factors affecting the duration of the Network Medical Devices audit: 1) unplanned activity, 2) staff turnover, 3) expanded audit scope, and 4) internal and external information gathering and analysis.

Mr. Anibaba concluded by sharing the steps UKIA is taking to prevent these issues from affecting UKIA's productivity in the future, which include the development of a dedicated team to focus on unplanned activities, streamlining the recording of audit time, improved communication within audit teams, and leveraging the UKIA infrastructure team. The following questions were asked during this discussion:

- Trustee Shuffett asked if the key Information Technology position had been filled. Mr. Anibaba stated that UKIA is concluding interviews and the position is expected to be filled within the next few weeks.
- Trustee Donahue inquired whether the client was made aware of concerns which UKIA identified but did not include in the audit report. Mr. Anibaba explained that UKIA does not include all concerns in its reports, yet it is as transparent as possible in providing the client the information it needs to make appropriate risk mitigation strategies.
- Trustee Donahue then requested additional information about causal factors and any consistent factors affecting staff turnover. Mr. Anibaba explained that staff turnover in the Information Technology area is an industry issue and not specific to UKIA.

G. University of Kentucky Internal Audit FY2020-21 First Quarter Activity Update

Mr. Reed began by reviewing UKIA's Work Plan Prioritization that was approved at the June 2019 ACC meeting. Mr. Reed explained that this Plan stems from the process, unit, and application risks identified by UKIA's Global Risk Assessment. Mr. Reed noted that UKIA's dynamic Global Risk Assessment process is governed by University activities but differs from the University Enterprise Risk Management Model, which is handled by the Risk Management Office.

Mr. Reed reviewed UKIA's risk assessment process and UKIA's six business risks factors: public exposure, external factors, materiality, audit duration, the control environments, management requests, and the 20 associated components. He then explained UKIA's eight audit services prior to going over the FY2019-20 first quarter completed activities and projects that were disseminated between July 1 and September 30, 2019.

Mr. Reed shared the six activities which were completed during the first quarter of FY2019-20. He discussed the project reports that were shared with the Board and the reasons that all reports are not shared.

Mr. Reed elaborated on UKIA's risk assessment rating process, which ascribes a score ranging from a high of three (3), to a low of one (1). Anything that rates higher than 2.3 is deemed extremely important. For those assigned a median range of 1.7 to 2.3, UKIA further evaluates them using the top three risk components from its list of 20 in the business risk factors.

After sharing additional information regarding UKIA's risk assessment process, Mr. Reed provided an overview of UKIA's FY2020-21 first quarter in-process activities. He began with UKIA's evaluation of the UK Information Technology Service Centers. Next, Mr. Reed discussed three contract management activities currently underway: 1) the Human Resource benefits application review, which assessed the third-party voluntary benefits for governance, data security, and payment verification; 2) a review of the University of Kentucky HealthCare (UKHC) equipment contract with Crothall Facilities Management, Inc.; and 3) a review of the Ryan White federal grant. Mr. Reed then explained the additional comprehensive reviews currently underway, including a cash handling review of Patient Financial Services in UKHC, a unit review of the Rosenberg College of Law, a conflict of interest review entailing pertinent activities throughout the University, and a validation of the calculation for tuition and student fees. Mr. Reed also noted several other projects currently underway, which include those audits that are required by the Commonwealth of Kentucky, several follow-up reviews and repetitive auditing programs, as well as inquiries and investigations.

Mr. Reed concluded with an explanation of UKIA's client interactions following the distribution of an audit report. Approximately three months after UKIA distributes an audit report, Mr. Reed and the UKIA Communication Liaison will meet with the client.

The purpose of this meeting is twofold; 1) to learn how the unit is mitigating the risks noted in the initial review and whether the area is experiencing any difficulties in achieving its goals; and 2) to offer UKIA's assistance in the implementation of any remediation strategies. Mr. Reed then explained that, between six and 12 months after the original audit, UKIA will conduct a follow-up review in order to reasonably assure that documented concerns have been mitigated. Mr. Reed mentioned that follow-up audit for inquiries and investigations may not occur due to the varying objectives and results of these audit types.

H. University of Kentucky Internal Audit FY2018-19 Comply Line Update

Mr. Reed reviewed the University Comply Line activity over the past three fiscal years. Mr. Reed explained how Comply Line contacts are triaged and distributed to Human Resources, the Office of Corporate Compliance, UKIA, the Office of Institutional Equity and Equal Opportunity, and the Provost Office for Faculty Advancement.

Mr. Reed shared FY2018-19 Comply Line submissions by caller type. FY2018-19 submissions totaled 246, with 169 submissions from employees, 59 being anonymous, 10 from family members, seven from customers, and one vendor contact. He then explained how UKIA categorizes these calls as reportable, duplicate, or informational. Comply Line contacts are considered 'reportable' if the contact involves a concern.

Mr. Reed noted that Comply Line contacts increased by approximately 89 (56%), from 157 to 246 between FY2016-17 and FY2018-19. In FY2018-19, 24 of the 58 duplicate contacts originated from three contacts. Duplicate contacts indicate a person or persons making repeated reports or inquiries about the same content. When individuals contact the Comply Line multiple times, or several people report the same issue, priority is given to the concern.

Reportable Comply Line submissions for FY2018-19 were categorized into 10 concern categories. The top four were Employee Lifecycle, Patient Information, Patient Care, and Pharmacy Services.

Mr. Reed concluded by explaining that UKIA was assigned seven of the 131 reportable contacts, six of which were handled by UKIA as an inquiry. However, UKIA documents the information from all 131 in UKIA's Audit Universe. Mr. Reed explained that the information documented in the Audit Universe provides additional insight into any activities being evaluated in the future. Questions from the reported discussions were:

- Trustee Donahue asked if reported concerns that were not assigned to UKIA had been assigned to one of the other triage areas, (i.e. Human Resources, Office of Corporate Compliance, Office of Institutional Equity and Equal Opportunity, and the Provost Office for Faculty Advancement). Mr. Reed stated that yes, this was current protocol.
- Trustee Shuffett inquired as to whether we send the person who submitted the information to the Comply Line a letter explaining the results of the

review. Mr. Reed stated that contacts were provided numbers allowing them to call in and receive the status of their concern. He went on to explain that letters are not sent to the contact, as activities or resulted information is not made public.

I. Other Business and Adjournment

With no further business, Chair Berry asked for a motion to adjourn. The motion was made by Trustee Shuffett and seconded by Trustee Donahue. The motion carried and the meeting was adjourned at 1:50 p.m.