

Minutes of the Audit and Compliance Committee
Meeting University of Kentucky
Friday, February 21, 2020

The Audit and Compliance Committee (ACC) of the University of Kentucky (UK) met on Friday, February 21, 2020, in the J. David Rosenberg College of Law Building.

I. Call to Order

Chair Claude "Skip" Berry III called the meeting to order at 9:01 a.m.

II. Roll Call

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

III. Approval of Minutes

Chair Berry reported that the minutes of the December 10, 2019 ACC meeting had been distributed. Trustee McCoy moved for approval of the minutes and Trustee Shuffett seconded the motion. The minutes from the December 10, 2019 ACC meeting were approved as presented.

IV. Reports and Discussion Items

A. University of Kentucky Internal Audit Fiscal Year 2020 Second Quarter Activity Update

Chief Audit Executive Joe Reed provided an update on the University of Kentucky Internal Audit (UKIA) Fiscal Year 2020 Second Quarter Activities. He reviewed UKIA's dynamic work prioritization plan which focused on processes, units, and applications that were to be concentrated on for this Fiscal Year. He then discussed UKIA's risk assessment, which consists of six business risk factors and 20 components. These components were denoted by using numbers associated with each component (i.e., media coverage is represented by the number one and corresponds with each audit).

Mr. Reed then discussed UKIA's completed activity for the second quarter, which included comprehensive reviews, repetitive audits, inquiries, and investigations. Mr. Reed continued, "Projects do not end when a report is issued. In fact, a number of things happen afterward, such as contacting the process owners and assisting the clients with their remediation plan progress."

Mr. Reed then highlighted activities that are underway and explained how UKIA rates risk, how those risks may lead to audits, and for what purposes. The risks are rated "high", "medium", or "low" as determined by scoring the business risk factors (i.e., federal regulations, industry compliance, operational, etc.). Current activities include comprehensive reviews, follow-up reviews, information technology reviews, and repetitive audits. Current activities also includes inquiries and investigations, but UKIA omits details on these until the information can be substantiated. Mr. Reed explained that some active inquiries and ongoing

investigations date back to Fiscal Year 2018 because no wrongdoing was identified. However, certain process vulnerabilities were identified, so the project remains open until a unit review can be conducted.

Trustee McCoy inquired about the "high" rating of the Student Fees review (2020 CC03 Student Tuition Rates). Mr. Reed explained that there was a change in calculation methods which led to UKIA's engagement. Trustee McCoy then questioned the Conflicts of Interest project (2020 CC02 Conflicts of Interest), and Mr. Reed explained that there are policy vulnerabilities that UKIA is aware of, warranting the "high" rating.

Mr. Reed concluded the Fiscal Year 2020 Second Quarter Activity Update by calling on UKIA IT Audit Manager Marc Blevins to speak about data mining and analytics. Mr. Blevins explained how analytics is a continuous process and does not start and end as a normal audit does. He described a recent project where UKIA was able to search for duplicate vendors, which are vendors who are entered into systems twice. He also discussed the ongoing Conflicts of Interest project, which provides opportunities to search for employees who act as vendors but may not have disclosed that they are, creating a conflict of interest.

B. University of Kentucky Internal Audit – Quality Assessment Review

Mr. Reed began UKIA's Quality Assessment Review (QAR) by calling upon UKIA Audit Director Martin Anibaba. Mr. Anibaba stated that UKIA had made significant progress in terms of methodology. Highlighting UKIA's international professional practices framework, Mr. Anibaba stated that a member of the UKIA staff is a Quality Assurance Coordinator who has been instrumental in making sure that UKIA can match various compliance standards to their processes. This person also works closely with the IT Manager to implement new software that can better manage UKIA's workflow management. Mr. Anibaba said that he has also begun leading bi-weekly training for the professional audit staff.

Mr. Reed explained that UKIA's QAR occurs every five years. Mr. Reed stated that UKIA's history with the QAR began in 2007 with a readiness assessment. The first review was conducted in 2009, the second in 2014, and the third is scheduled for May 2020. The results of this internal assessment will be presented to the University executive leadership and the ACC. There are three levels of compliance for the internal assessment: noncompliance, partially conform, and generally conform. UKIA has received a rating of "generally conform" in every review. The timeline for the QAR will begin with a request for proposal (RFP) for a QAR auditor. RFP submissions will end in June, and the audit firm will be engaged in September. The results will be presented during the December 2020 ACC meeting.

C. University of Kentucky Internal Audit – Metrics

Mr. Reed described UKIA's metrics, which are broken into two categories: efficiency and effectiveness. These categories are further divided into seven individual metrics: audit duration, and productivity for efficiency; audit coverage, contacts, partnerships, remediation, and survey results for effectiveness. Regarding the efficiency category, Mr. Reed explained that the goal for audit duration (planned activities only) is 12 weeks to complete comprehensive reviews and their follow-ups, assessments, consultations, and IT reviews and their follow-ups. As of FY2018-19, UKIA was at 43 weeks; as of December 31, 2019, UKIA is currently at 42 weeks for this metric. For repetitive audits and their follow-ups, the goal is six weeks; in FY2018-19 UKIA was at 16 weeks and is currently at 10 weeks. For productivity, the

goal for the audit staff is 75 percent; UKIA is at 74 percent (75 percent in FY2018-19). Audit managers are at 66 percent which is the same from FY2018-19. For the effectiveness category, the goal for audit coverage is 100 percent; UKIA is currently at 54 percent. For contacts the goal is 48/year; UKIA is at 20 so far (40 in FY2018-19). The goal for partnerships is two per month; UKIA currently has six, which is the same as FY2018-19. UKIA's remediation goal is 80 percent; they currently have 85.7 percent (65.6 percent in FY2018-19). For survey results, the goal is a 3 out of 5 score; the average audit client satisfaction survey score was 3.38 (3.23 in FY2018-19), while the average score from training participant satisfaction surveys was 4.34 (4.41 in FY2018-19).

Mr. Reed then asked UKIA Communications Manager, Julie Hoover-Ernst, to talk about touch-base meetings with units, which are used to discuss and assist with remediation. Mrs. Hoover-Ernst discussed a recent check-in that allowed UKIA to go back into the unit and assist them with a reconciliation process to provide assurance that the risk was being remediated appropriately. She discussed a second example that included a procurement card review where the client's efforts to remediate the risk were proving to be too time-consuming and they requested UKIA's assistance to streamline their process. These partnerships ultimately lead to long-term positive relationships, improving what UKIA can do for the University.

Trustee McCoy added that UKIA's check-in work has added value to the perception of internal audit. Trustee McCoy also inquired if UKIA still had a vacant position and if that would impact the efficiency and effectiveness of UKIA's metrics. Mr. Reed stated that efficiency and effectiveness are impacted by any open position, especially on the information technology side.

D. Report on January 2020 Bond Offering

Chair Berry introduced Acting Treasurer with University Financial Services Penny Cox to report on the January 2020 Bond Offering.

Ms. Cox began by discussing the Baird, Kurtz and Dobson, LLC (BKD) report. BKD reviewed procedures on the bond offer entailing a review of the June 30, 2019 audited financial statements to ensure that no events had taken place subsequent to June 30, 2019, and that no alterations to the financial statements included in the offer document had occurred. BKD also reviewed the other information in the offering documents for consistency with the financial statements and identified no inconsistencies or misstatements. Ms. Cox stated that they were pleased with the bond sale, with 12 bidders for their Series A bonds, which had a result of 1.84 percent. She proceeded to say that their Series B bonds had 20 bidders and also received 1.84 percent. Ms. Cox concluded by sharing her gratitude for the work University Financial Services has done to receive these ratings and bid results.

V. New Business Items

A. FY2019-20 Audit Engagement Letter

Chair Berry stated that the ACC 1 is a recommendation that the Committee authorize the Acting Treasurer to execute. This engagement letter was with BKD for the audit of the University's financial statements for the Fiscal Year ending June 30, 2020. The scope of BKD services would include an audit of the basic financial statements for the University and

affiliated corporations for the year. Included in the audit will also be an audit of four organizational units of the University, which include the University of Kentucky hospital systems, the Kentucky Tobacco Research and Development Center, the Alumni Association, and WUKY-FM radio. Additionally, BKD will report on internal controls and compliance in accordance with state, federal regulations, and agreed-upon procedures. The anticipated audit engagement fees are \$430,000. This represents an increase of three percent over the prior year. BKD will present the executed engagement letter at the next ACC Committee meeting for review.

Chair Berry then introduced ACC 1, to execute the FY2019-20 audit engagement letter to be voted on by the Committee. Trustee Ramsey made the motion to approve and Trustee McCoy seconded the motion. The motion carried.

VI. Other Business

A. Audit and Compliance Committee and UKIA Charters and Audit Authority

Chair Berry began a discussion of the Audit and Compliance Committee and UK Internal Audit Charters by explaining that these Charters define the authority and responsibilities of the ACC and UKIA. He then noted that though these Charters are to be updated each year, they would not be amended at this time since UKIA is about to undergo their QAR. Instead, the ACC would wait until next Fiscal Year. He continued by stating that a few amendments to the UKIA Charter would be necessary. Those changes include clarifying the types of annual reports that are distributed to the ACC and expanding the distribution list to include the Chair of the Board of Trustees. Chair Berry then stated that while the Chair has been receiving the report, it is not stipulated in the Charter to do so. Additionally, UKIA's responsibility will be amended to include not just a responsibility to communicate the results of the QAR, but to execute a QAR every five years, or as often as recommended by the Institute of Internal Auditors to be in compliance with the International Standards of the Professional Practice of Internal Auditing. Additional amendments include the frequency in which UKIA will present its work plan to the ACC for review and approval. Chair Berry continued by saying that last June the Committee approved UKIA's transition to a dynamic risk-based work plan, which allows UKIA to continuously adapt its work plan to address emerging risks.

VII. Adjournment

With no further business to come before the Committee, Chair Berry asked for a motion to adjourn. The motion was made by Trustee Shuffett and seconded by Trustee McCoy. The motion carried and the meeting was adjourned at 9:42 a.m.