

Meeting Minutes of the
Audit and Compliance Committee
University of Kentucky
Thursday, February 17, 2022

The Audit and Compliance Committee (ACC) of the University of Kentucky Board of Trustees met on Thursday, February 17, 2022, in the Gatton Student Center Harris Ballroom. Chair Claude “Skip” Berry III called the meeting to order at 1:02 p.m.

I. Roll Call

The following members of the ACC were in attendance: Claude “Skip” Berry III, Michael Hawse, Elizabeth McCoy, Derrick Ramsey, Bryan Sunderland and Hollie Swanson.

II. Approval of Minutes

Chair Berry reported that the minutes of the December 13, 2021, ACC meeting had been distributed. Trustee McCoy moved for approval of the minutes, and Trustee Hawse seconded the motion. The minutes were approved as presented.

III. Reports and Discussion Items

A. Fiscal Year (FY) 2021-22 Quarter 2 Activity Update

Chair Berry introduced Chief Accountability Officer and Audit Executive Joe Reed, to present the activity update for the second quarter of FY 2021-22. Mr. Reed began by discussing UKIA’s audit cycle. This cycle consists of six phases:

- 1) Work prioritization
- 2) Assignment
- 3) Engagement
- 4) Reporting
- 5) Client check-ins
- 6) Follow-ups

Each of these phases is an equally critical component. The audit cycle begins with the development of UKIA’s work prioritization program. Next is the assignment phase where preliminary work is completed behind the scenes to prepare for an audit. That is followed by the engagement phase where projects move through the planning and fieldwork stages. Next is the reporting phase where the audit findings are handed to the communications team to form the audit communications and reports. Client check-ins are conducted about 90-180 days after the reports are disseminated to check on the client’s remediation strategies. The follow-up stage is the final phase where UKIA validates the client’s progress in remediating the findings from the review.

Mr. Reed then briefly spoke about UKIA’s risk profile process, which is how risks are identified. He explained that there are seven business risk factors and 20 components that are used to rate risks from high to low.

Mr. Reed then discussed UKIA’s completed projects for the second quarter. These included one comprehensive review, one inquiry/investigation and five repetitive audits. Of

these repetitive audits, three were procurement card reviews, while two were web application security reviews.

Mr. Reed then reviewed UKIA's active projects. He explained that six are comprehensive reviews, two of which are in UK HealthCare. He noted that there are 15 repetitive audits underway, including 10 procurement card audits, three web application security reviews and two website compliance reviews. There are also two data analytics, two follow-ups and seven inquiries/investigations in progress. Mr. Reed then took a few moments to introduce two of UKIA's auditors, Lee Walker and Amanda Witt, to the Committee and recognize them for their achievements and hard work with analytics and investigations.

Last, Mr. Reed spoke about UKIA's audit coverage metrics for completed projects. This metric demonstrates how well UKIA did with addressing the risks noted in the approved work prioritization plan by categorizing UKIA's projects according to the process, unit and/or information system risk they addressed in the work prioritization plan.

Trustee Swanson addressed Mr. Reed, stating that over the past year procurement cards have been used for fraudulent purposes. Mr. Reed responded that this is indeed a risk and UKIA is focused on it and will continue to perform more procurement card reviews in response. Trustee Swanson then asked if there was a problem with UK's processes. Mr. Reed responded that UK's processes are fine, however, training needs to be strengthened which is being addressed through the Finance and Administration Specialized Training programs.

B. FY 2021-22 Mid-Year Comply Line Update

Chair Berry introduced Deputy Accountability Officer and Audit Executive Martin Anibaba, to present UKIA's mid-year comply line update. Mr. Anibaba began by detailing how comply line information is managed. He explained that Human Resources, the Office of Corporate Compliance, Office of Legal Counsel and UKIA all have access to the comply line entries. He then shared how each call is triaged, which is how the calls are assigned to the subject matter experts who provide an official response and investigate when applicable.

Mr. Anibaba explained that UKIA classifies each of the calls as reportable, duplicate and informational for tracking and trending purposes. He shared that calls classified as "reportable" are those that convey a concern that pertains to a possible violation of federal, state or local laws and regulations and/or university policy. Duplicate calls are those that pertain to a previously reported incident. Calls deemed "informational" are those in which the caller asks for or provides information that is not related to a concern.

Mr. Anibaba then discussed how UKIA promotes trust, transparency and accountability, in alignment with UK's strategic plan, through its handling of the comply line calls. He explained that the comply line itself promotes transparency as it enables all stakeholders to see all the concerns that come in so they can be effectively triaged and addressed. As each concern is followed through to resolution, it ensures accountability. Finally, the caller's ability to receive updates about the concern via the comply line fosters the understanding that UK is being both transparent and accountable to their concerns which promotes trust.

Next, Mr. Anibaba compared the number of comply line calls that had come in during the first six months of the Fiscal Year to the same period in the three prior FY's. He noted that FY 2021-22 had 142 calls, while FY 2018-19 had 116, FY 2019-20 had 151, and FY 2020-21 had 157. Mr. Anibaba then explained that, of those 142 calls that have come in this FY, 56 were anonymous calls, 69 were from employees, 16 were from patients and one was from a student. The most-reported concerns regarded employee lifecycle, patient information and patient care.

Last, Mr. Anibaba presented the 82 comply line calls related to COVID-19, which UKIA grouped by presidential cabinet area. Accordingly, there were two related to athletics, 11 related to finance and administration, one related to land grant area, seven related to the provost area, one related to student success and 60 related to health care. The calls were most frequently about people reporting to work after a COVID-19 exposure, disclosure of employees' positive COVID-19 results, harassment and fear of retaliation regarding employees' vaccination status, and finally, students and employees who were not wearing masks indoors as required.

Trustee Swanson followed up with Mr. Anibaba on what the course of action would be for the aforementioned comply line concerns. Mr. Anibaba answered that any necessary action is taken by Human Resources, the Office of Corporate Compliance and/or Office of Legal Counsel.

C. Audit and Compliance Committee and UK Internal Audit Charters

Chair Berry asked Mr. Reed to present the proposed revisions to the ACC and UKIA charters. Mr. Reed explained that such reviews must be done annually in accordance with the International Standards for the Professional Practice of Internal Auditing Standards.

Mr. Reed noted that there are eight sections in the ACC charter, and revisions were proposed for three of them. These sections include purpose, structure and meetings. Mr. Reed then reviewed the proposed revisions to the ACC Charter. Revisions are as follows with the proposed additions highlighted in **bold black** and proposed removals bolded and struck.

- 1) Purpose: The Audit and Compliance Committee (ACC) provides oversight of the quality and activity of the university's auditing **and accountability** functions and external financial reporting. The ACC does not provide expert or special assurance regarding the university's financial statements.

In accordance with university Governing Regulation, Part II, Section E.2(c), the ACC:

1. Reviews recommendations and appoints the external auditors;
2. Receives and reviews the annual financial and other reports from the external auditors and reports on such to the Board of Trustees; and
3. Receives and reviews reports from the Chief Accountability Officer and Audit Executive on the university's system of internal controls and compliance with applicable laws, regulations, and university policy, and reports on such to the Board of Trustees.

- 2) Structure: The ACC membership shall be composed of a minimum of three, and no more than nine, members from the Board of Trustees utilizing the standard nomination and appointment process for committee formation and chair selection. Per the university Governing Regulation, Part II, Section D.1, members should be independent of management and without business relationships that could interfere with the exercise of good judgment, disclosing any conflicts. At least one member of the ACC should have accounting or financial expertise.
- 3) Meetings: All members have the right to vote on matters that come before the Committee, **except in those instances where a conflict of interest may be construed due to a relationship or affiliation with a college, unit, program, system and/or affiliated vendor or contractor being reviewed by UKIA. For such matters, the affected committee member(s) shall recuse themselves. Any dispute regarding independence should be reviewed by the Office of Legal Counsel for final resolution.** All members are expected to attend each meeting; a quorum will be comprised of a simple majority of the total membership. The ACC may invite members of management, external or internal auditors or others to attend meetings and provide pertinent information.

Mr. Reed then explained the changes being proposed to all four sections of UKIA's charter, as follows:

- 1) Purpose: **UK Internal Audit (UKIA)** is an independent and objective assurance, **advisory** and consulting function which assists units of the University of Kentucky in the effective performance of their operational and fiduciary responsibilities with respect to proper internal controls. The **advisory** activities incorporate university transparency overseen by **the accountability office within UKIA**. UKIA aids in the achievement of management's objectives by reviewing areas of potential vulnerability and furnishing unit management and executive leadership (President's Cabinet) with expert analyses, information and recommendations concerning the activities examined. **Additionally, UKIA offers consulting services to validate the governance, fiscal stewardship and processes related to new and/or expanding units, programs or systems.** UKIA has no authority over, nor direct responsibility for, any of the activities reviewed. The services performed by UKIA provide advisory assurance and guidance only, and in no way relieve these units of their responsibilities to achieve their unit's objectives in compliance with federal, state and university regulations, policies and procedures.
- 2) Standards: UKIA governs its activity in accordance with The Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing and Core Principles for the Professional Practice of Internal Auditing. In addition, the Internal Audit **and Accountability** functions adhere to the University of Kentucky **Governing Regulation XIV** Ethical Principles and Code of Conduct and other internal professional policies. UKIA staff members will carry out the mission of the department by exhibiting professionalism, ethics, strong communication skills, and knowledge of federal, state and university regulations. Each member of the department shall consistently demonstrate high standards of conduct, as well as appropriate judgment and discretion.

- 3) Authority: UKIA provides assurance, advisory **and consulting** services to all entities and affiliates of the University of Kentucky. For engagements related to entities outside of the university's jurisdiction, UKIA shall communicate in writing the objective, scope, responsibilities and other pertinent expectations. UKIA's activity is independent and free from interference in determining the scope of audits, performing audit work and communicating results. This independence is ensured through UKIA reporting relationship. The Chief Accountability Officer and Audit Executive reports directly to the President and to the Audit and Compliance Committee (ACC) of the Board of Trustees. In carrying out these responsibilities, UKIA personnel have unrestricted access to all data, records, files, property and personnel of the university. Per GR XIV, Ethical Principles and Code of Conduct, university employees are required to assist UKIA in fulfilling its roles and responsibilities. These responsibilities are in conformance with International Professional Practices Framework implementation guidelines.
- 4) Responsibilities:
1. Internal Audit Charter: At least annually, UKIA will review this Charter with the Audit and Compliance Committee (ACC) for possible revisions based on industry standards; all charter revisions will be approved by the ACC.
 2. Audit Project Prioritization: At least annually, UKIA will submit its risk-based, dynamic Work Plan to the ACC for review and approval; any significant interim changes will also be submitted.
 3. Progress Reports: **Quarterly**, and other times as requested, UKIA will provide a progress report summarizing audit activity to both university executive management and members of the ACC. In addition, UKIA will provide regular updates to the ACC regarding **its metrics and its other activities, as well as** the effectiveness of the university's system of internal controls and compliance with applicable laws, regulations and university policies.
 4. Final Audit Reports: **To ensure transparency and appropriate communication of results**, UKIA will devise a unique distribution list for final audit reports. Such distribution lists shall always include executive leadership and stakeholders. The members of the ACC and independent external auditors shall receive all final reports, with the exception of the final reports for follow-up reviews, **results regarding procedural infractions that incur low risk to the university** and inquiries that are not substantiated and elevated to investigation status.
 5. Quality Assurance: UKIA will undertake a Quality Assessment Review by qualified external consultants every five years, or as recommended by the Institute of Internal Auditors, to be in compliance with the International Standards of the Professional Practice of Internal Auditing. The results of these reviews will be communicated to the ACC at the first meeting following the receipt of the results. UKIA will also report out on metrics used to gauge efficiency and effectiveness as a regular means of monitoring quality.
 6. Collaborations: UKIA will work collaboratively with the university's independent external auditors to ensure that efforts are not duplicated, and resources are leveraged. Additional relationships and collaborations will be formed with other university functions to improve operations across the enterprise and to promote the achievement of management objectives.

7. The Accountability Office **within UKIA** shall work to enhance operational efficiency and **increase** effectiveness across the university by evaluating regulatory compliance and monitoring performance against established metrics to mitigate risk and ensure data integrity. To promote transparency regarding these standards, associated information flows will also be assessed **and adjusted as appropriate**.

At the conclusion of Mr. Reed's presentation, Chair Berry explained that these proposed revisions would be brought back before the Committee at the April meeting for approval.

IV. New Business Items

A. Execute Fiscal Year 2021-22 Audit Engagement Letter

Chair Berry introduced Treasurer Penny Cox, to present the FY 2021-22 audit engagement letter (ACC 1). Ms. Cox introduced ACC 1, which is a recommendation to authorize the Treasurer to execute the audit engagement letter with BKD, LLP Certified Public Accountants. The audit will review internal controls and compliance with state and federal government regulations. The engagement cost will be \$531,150 and represents a three percent increase, along with an additional \$77,000 for potential acquisition. The engagement letter will be brought back before the ACC for review. Chair Berry asked for a motion. The motion was made by Trustee Ramsey and seconded by Trustee Hawse. The motion carried.

V. Adjournment

With no further business to come before the Committee, Chair Berry asked for a motion to adjourn. The motion was made by Trustee Ramsey and seconded by Trustee Hawse. The motion carried, and the meeting adjourned at 1:39 p.m.

Respectfully Submitted,
Alan Wood
Editorial Assistant
UK Internal Audit