

**MINUTES OF THE AUDIT AND COMPLIANCE SUBCOMMITTEE
OF THE FINANCE COMMITTEE
University of Kentucky Board of Trustees
September 11, 2015, 9:00 am
Convocation Hall, First Federal Center
Hazard Community and Technical College**

Subcommittee Members Present

Bill Britton (Chair), Britt Brockman, Angela Edwards and David Hawpe

Approval of Minutes

The minutes of the June 18, 2015 Audit and Compliance Subcommittee (ACS) meeting were approved as presented.

Reports and Discussion Items

CR1 Reading Update

On June 19, 2015, the Board of Trustees (BOT) had the first reading of the CR1 to change the ACS to a regular standing committee. The BOT second reading will be this afternoon. If approved, the ACS will become a regular standing committee.

Audit Request for Proposals Summary

Ms. Susan Krauss, Treasurer, presented the *Request for Proposals—Audit, Accounting, Tax and Consulting Services*. She explained that this is the final year of the contract with UK external auditors, BKD and a Request for Proposal (RFP) will be issued in the fall. It will be for a broad scope of services including the annual independent audit of the UK consolidated financial statements and its affiliated corporations as well as several organizational units at the University. In addition, the RFP includes consulting services, as needed, on audit, accounting and tax-related matters, and forensic reviews for fraud-related issues. The contract will have an initial term of five years with four one-year renewal options. The effective date of the contract will be March 1, 2016 so the firm can begin planning any activities for the fiscal year 2016 audits. Ms. Krauss then explained the key event dates related to the RFP, the RFP Evaluation Committee composition, the proposed RFP distribution list and the proposed minimum qualifications. Currently, there are six Kentucky firms that are being sent RFPs and research will be done to see if any other firms should be included. The RFP will be included on the UK Purchasing Website and certainly any interested qualified firm can submit. UK is interested in a national firm that specializes in colleges and universities as well as university healthcare issues; also a firm with tax and forensic expertise is preferred. It was noted that BKD has been UK's external auditors for the past eight years.

UK Internal Audit FY 2015 Final Activity Update—UKIA Annual Report

Mr. Joe Reed, Senior Director of Internal Audit (UKIA) reviewed the *UKIA FY 2015 Annual Report, Providing University Coverage*. He highlighted the following:

Acknowledgements- Mr. Reed began with the acknowledgements of the units that UKIA had partnered with in FY 2015 including: Accounts Payable, HR Compensation, Enrollment Management, UK Legal Counsel, Information Security, Employee Relations, Purchasing, UK Police Department, and Treasury Services. He expressed his appreciation for these partnerships and the assistance that UKIA received from them.

Providing University Coverage – One of UKIA services utilized to assist with University audit coverage is continuous or repetitive audits that expand across the University spectrum focusing on adherence to University regulations. UKIA has developed these unannounced audits to examine regulatory adherence, deter fraud and share the results with the unit and process owner; follow-up occurs within 30-90 days to assess the resolution of audit findings. UKIA has repetitive audits related to Cash Handling, ProCards, Nonexempt Overtime Compensation as well as FERPA.

FY 2015 Message from the Senior Director - Mr. Reed noted that unplanned activity comprised 40% of UKIA total audit time in FY 2015, which is similar to FY 2014. To better manage planned versus unplanned activity in the future, UKIA will be moving to a dynamic work plan starting in FY 2017. As a result, UKIA will present an updated Work Plan periodically in FY 2017 to ensure the appropriate audit activity is being performed.

Staff Updates - Mr. Reed explained UKIA staff changes during FY 2015 which included two departures, two promotions and two new additions. He noted that a strong infrastructure is required to support the departmental growth and continual improvement.

Professional Development – In FY 2015, UKIA had a staff of 10 professionals with nine certifications including: Certified Internal Auditor, Certified Information Systems Auditor, Certified Public Accountant and a Certified Fraud Examiner. Professional development is a necessary component for UKIA with average training of 53 hours per auditor in FY 2015; UKIA requirement is 40-60 hours per auditor annually.

Student Success - UKIA student engagement this past fall was both challenging and fulfilling. Our student internship program consisted of individual student interns, Internal Audit student-assigned teams and a visiting scholar. We are proud that one of the student interns was offered a job at BKD.

Governance - UKIA is governed by seven documents that incorporate the UKIA professional standards, code of conduct, and our departmental requirements. The bullet points within each governing document define the purpose and demonstrate UKIA FY 2015 actions and activities to achieve compliance.

Quality Improvement Program - UKIA underwent an external Quality Assessment Review (QAR) in FY 2015 and received the highest rating of “Generally Conforms”. Mr. Reed highlighted the following quote from the external QAR team about UKIA: “IAD (Internal Audit Department) is seen as one of the key cornerstones of UK’s corporate governance as evidenced by interviews, surveys, document reviews and observations.” UKIA was very pleased with the QAR results.

Overall Results - UKIA uses a dashboard to measure results. The following are the quadrants represented in the FY 2015 dashboard:

- Top left – UKIA Approved Work Plan Results
- Top right – List of Unplanned Activity and Status
- Bottom left – Audit Activity by Enterprise Division
- Bottom right – UKIA Six Metric Results

Overall, UKIA completed 60% of the approved work plan, with 40% of audit hours spent on unplanned activity. Five information technology (IT) reviews were conducted. UKIA met the Productivity, Infrastructure, Recommendations Accepted and Survey Results metrics for FY 2015. UKIA will continue to work on ways to improve the two metrics that were not achieved, namely Audit Duration and Work Plan Completion Rate.

The ACS thanked the UKIA staff for the work they have done with the student interns and appreciation for their overall work. Chair Britton expressed his appreciation to Amy Hisel and the staff that have helped with the logistics of having this meeting in Hazard. He also thanked Hazard Community and Technical College for hosting and the opportunity to come and visit the campus.

There being no further business, the meeting was adjourned.

Next Meeting

Monday, December 14, 2015

- BKD Results of 2015 Financial Statement Audit
- UK Internal Audit FY 2016 Activity Update
- FY 2015 Comply Line Update Summary

Respectfully submitted,

Catherine Miller