

**MINUTES OF THE AUDIT AND COMPLIANCE SUBCOMMITTEE  
OF THE FINANCE COMMITTEE  
University of Kentucky Board of Trustees  
May 7, 2015 2:45 pm  
Charles T. Wethington Building, Room 317**

**Subcommittee Members Present**

Bill Britton (Chair), Angela Edwards, David Hawpe and Jim Stuckert

**Approval of Minutes**

The minutes of the March 16, 2015 Audit and Compliance Subcommittee (ACS) meeting were approved as presented.

**Reports and Discussion Items**

**BKD Update**

**FY 2015 Pre-Audit Report**

Ms. Joanie Duckworth, BKD Manager, presented the *Pre-Audit Report to the Audit and Compliance Subcommittee* and highlighted the following items:

- Entities included in the FY 2015 audit
- Planned scope and timing
- Preliminary risks identified which were similar to last year and new items including:
  - Recording of activity (with respect to GASB 60) related to Phase II of the EdR project and Aramark project
  - Review of status of A-133 findings from prior year's audit
  - Sale of stock of Coldstream Laboratories (review for proper recording of transaction)
  - Recording of activity related to JMI Sports, LLC (with respect to bonus payments received)
  - Recording of pledges receivable for the UK Department of Intercollegiate Athletics,

**Report on Procedures Performed in Connection with Bond Offering**

Ms. Duckworth shared that as a result of the procedures performed in connection with UK's exempt offering of the 2015 Series A, B and C Bonds, BKD did not note any material inconsistencies or misstatements of fact between the information contained in the Offering Document and the audited financial statements and related BKD report.

**Effect of Recent GASB Pronouncements**

Ms. Mary McKinley, BKD Partner, gave the presentation: *Effect of Recent GASB Pronouncements*. She reviewed four new GASB Pronouncements and their respective impact, if any, on the University's financial statements this year and ongoing years. She also reviewed Federal grant policies changes and gave information regarding the GASB Lease Project. Discussion followed.

## **UK Internal Audit Update**

### Work Plan Creation Process

Mr. Joe Reed, Senior Director of Internal Audit (UKIA) gave the presentation: *Work Plan Creation Process*. The presentation agenda included Objectives, Framework and Next Steps. Mr. Reed explained the following:

- Objectives – UKIA objectives for its annual work plan creation process is to achieve a Work Plan based on a documented Risk Assessment that includes input of Senior Management and the Board and also aligns UKIA resources with UK Objectives.
- Framework – The UKIA Work Plan Creation Framework consists of the following six components:
  - Audit Coverage-UKIA breaks down the University into six enterprise divisions. Each of the divisions is considered in the creation of the Work Plan to ensure adequate audit coverage.
  - Risk Assessment-The Risk Assessment Process includes defining the Audit Universe (auditable units, processes and applications), using certain Business Risk Factors to score the Audit Universe information and finally sorting the scores in descending order.
  - Management Concerns-UKIA consults with all levels of Management to identify concerns for possible inclusion in the Work Plan. These concerns are discussed throughout the year.
  - Infrastructure improvement is an ongoing effort at UKIA. This includes a Quality Assurance and Improvement Program, and the UKIA Education and Instruction Program.
  - Unplanned Activity-This includes investigations, Comply Line activity and consultations.
  - External Factors- This category considers Higher Education trends, emerging risks and current affairs.
  - Consolidation – All of the information gathered in the six framework steps is consolidated.
- Next Steps – The Work Plan Content will include a Compliance Program, Business/Operations, Information Technology, Unplanned Activities and Infrastructure Hours. Work Plan Considerations will include UKIA Skill Set, Available Hours, Audit Commitments and Other Resources.

### FY 2015 Activity Update

Mr. Reed reviewed the FY 2015 Activity Update as of March 31, 2015. He noted that the first quadrant represents the FY 2015 UKIA Approved Work Plan. He explained that yellow means that the audit has been engaged; red means it has not been engaged and green indicates that the audit has been completed. On the top right hand side is UKIA's Unplanned Activity. While UKIA forecasts that unplanned activity will be 20% of total hours, the current rate of unplanned activity is 40% of total hours as of March 31, 2015.

### 2014 QAR Final Report

Mr. Reed presented the 2014 QAR Final Report. The QAR was conducted in September, 2014 and UKIA received the highest rating of "Generally Conforms". The UKIA rating is confirmed through April 2020.

Chair Britton inquired about UKIA staffing needs. Mr. Eric Monday, Executive Vice President for Finance and Administration responded that Mr. Reed had presented the UKIA FY 16 Budget and staffing needs to Mr. Monday's office and this information will be formally presented at the June ACS Meeting. There was also discussion around recent media coverage of higher education adverse events and what UKIA does to reduce the likelihood of these events happening at UK.

## **OMB Uniform Guidance Implementation**

Ms. Jennifer Miles, Director of Sponsored Projects Accounting gave the presentation: *Uniform Guidance Overview*. The presentation was regarding new federal grant guidelines applicable to new federal awards and funding increments issued on and after December 26, 2014.

### **GR/AR Amendment Update**

Marcy Deaton, Associate General Counsel presented results of benchmark institution data regarding Audit Committees. The ACS desires to move forward in proposing a change to the Governing Regulation to enable the ACS to become a full committee reporting directly to the Board of Trustees. The first reading will be at the June meeting; the second reading will be at the September meeting.

There being no further business, the meeting was adjourned.

### **Next Meeting**

Thursday, June 18, 2015

- UKIA Update
  - FY 2015 Activity Update
  - FY 2016 Budget Review
  - FY 2016 Proposed Work Plan for Approval
- Proposed GR Revision Reading

Respectfully submitted,

Catherine Miller