Audit and Compliance Committee Meeting
Gatton Student Center, Harris Ballroom
Thursday, June 13, 2024

The Audit and Compliance Committee (ACC) met on June 13, 2024 in the Gatton Student Center Harris Ballroom.

I.   <u>Call to Order</u>

Chair Ray Daniels called the meeting to order at 12:46 p.m.

II.   <u>Roll Call</u>

The following members of the ACC were in attendance: Cathy Black, Janie Greer, Kim Scott McCann, Elizabeth McCoy and Hollie Swanson.

Trustee Claude "Skip" Berry III attended the meeting via Zoom.

III.   <u>Approval of Minutes – April 25, 2024</u>

Chair Daniels reported that the minutes of the April 25, 2024 meeting had been distributed. Trustee McCoy motioned to approve the minutes, and Trustee Black seconded. The motion carried without dissent.

IV.   <u>Reports and Discussion Items</u>

A. <u>UK Internal Audit Risk Assessment and Work Priorities for FY 2024-25</u>

Chair Daniels introduced Chief Accountability Officer and Audit Executive Joe Reed to present UK Internal Audit's (UKIA) activity update for the third and fourth quarters of FY 2023-24. Mr. Reed began by explaining UKIA's FY 2023-24 work priorities, which detail the department's planned activities for the fiscal year. UKIA develops its work priorities through a quantitative risk assessment of the enterprise based on seven business risk factors and 20 associated components. The planned activities comprise three categories: processes, information systems and units. Most of UKIA's work concerns processes and information systems, as these areas affect all parts of the enterprise. The work priorities also include inquiries that are unplanned, and follow-up reviews and ongoing activities that are consistently part of UKIA's work.

Mr. Reed then said that UKIA divides its activity update into four areas: enterprise-wide, UK HealthCare (UKHC), research and the Office of Accountability. Beginning with active, enterprise-wide reviews, UKIA was engaged in three comprehensive reviews, four repetitive audits, four follow-up reviews, two data analytics and five inquiries. Mr. Reed explained that UKIA typically meets with the client three to four times during a review. These meetings aim to put the client at ease and provide overviews of the review, the scope or focus of work and the audit results. These meetings also ensure that both parties understand and agree on remediation strategies and allow the client to clarify information and bring up concerns UKIA

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may have missed.

Mr. Reed then detailed UKIA's seven active partnerships, five of which were enterprise-wide. One partnership concerned only UKHC and allowed UKIA to provide input on whether various policies within the University's Business Procedures Manual applied to UKHC. UKIA also had one partnership that concerned only research. UKIA's role in this partnership was to provide input for a compliance program related to electronic records and signatures.

Transitioning to completed, enterprise-wide activities, UKIA had concluded two repetitive audits, one follow-up review and one inquiry.

Mr. Reed then noted UKIA's active health care reviews, which included two comprehensive reviews, one assessment, five repetitive audits and one follow-up review. UKIA was also engaged in three consultations.

UKIA's completed health care reviews included 13 repetitive audits and one inquiry.

Additionally, UKIA had one active research review, a repetitive procurement card audit.

In total, UKIA had 25 active assurance reviews and 12 active advisory reviews by the end of Q4. Returning to the work priorities, UKIA had completed at least one project in 10 of the 17 areas listed, with five other areas having a project engaged but not yet completed. Asset management and procurement cards had 13 and 16 completed projects, respectively. Mr. Reed said that completing multiple reviews in one area allows UKIA to trend audit results and provide guidance to units across campus through a webinar series titled "Lessons Learned."

Mr. Reed concluded his presentation by highlighting active projects within UKIA's Office of Accountability. This office evaluates high-risk processes that require compliance with University policies and associated regulations. The office had two active projects: one related to international travel registration and another related to the University's Willed Body Program.

Trustee McCoy commented that communicating best practices for procurement card use benefits the University and asked Mr. Reed if the University has improved in this regard. Mr. Reed said that working with the Finance and Administration Specialized Training (F.A.S.T.) program has helped provide greater education for faculty and staff. He noted that while procurement cards will always be a concern, conducting more reviews and sharing trends help mitigate the risk.

Chair Daniels said that he appreciated how UKIA has streamlined its reports and made them easier to understand.

V.   New Business

 A. UKIA Risk Assessment and Work Priorities for FY 2024-25

Mr. Reed presented UKIA's proposed work priorities for FY 2024-25. He explained that

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the *Institute of Internal Auditors' Global Internal Audit Standard 9.4* requires the chief audit executive to "base the internal audit plan on a documented assessment of the organization's strategies, objectives and risks." UKIA has a work priorities team that meets weekly to discuss concerns from various sources. These meetings help UKIA prioritize projects and inform its risk assessment. UKIA aims to understand both the University's purpose as well as the activity within units. Standard 9.4 also requires the internal audit plan to specify "audit services that support the organization's governance, risk management and control processes," which UKIA achieves by offering 10 distinct services. Lastly, *Standard 9.4* requires the internal audit plan to "consider coverage of information technology governance, fraud risk, the effectiveness of the organization's compliance and ethics programs and other high-risk areas." UKIA has a dedicated information technology team and another team tasked with investigating potential fraud. UKIA also conducts narrowly-scoped repetitive audits to examine high-risk areas through its Office of Accountability. The ACC Charter and UKIA Charter are two additional documents that govern UKIA's work.

Transitioning to UKIA's work prioritization methodology, Mr. Reed explained that UKIA has a data repository called the "audit universe." Data within the audit universe is categorized between processes, systems or units. Each process, system or unit possesses "inherent risks," which are the risks present before internal controls are established, as well as "residual risks," which are the remaining risks after internal controls are in place. UKIA's work priorities team discusses new data each week, including calls from the University's Comply Line, reports from UKIA's web contact form, insights from contact with stakeholders and direct calls/emails to UKIA. The team analyzes data based on risk and either commences a review immediately or stores the data in the audit universe for future risk assessments. Completed reviews are also stored in the audit universe. After performing a risk assessment, UKIA creates a heat map to visualize the University's high-risk areas then develops the next year's work priorities. Other considerations for the risk assessment include the current higher education environment, industry events, the University's strategic plan and resources, UKIA's expertise, previous audit activities and regulatory concerns.

Mr. Reed then outlined UKIA's proposed work priorities for FY 2024-25. The processes included business continuity, contract management, enrollment management, institutional compliance, medical revenue cycle, planning, design and construction, procurement cards and records management. The information systems included data centers, electronic discovery, enterprise applications and disaster recovery. The units comprised ambulatory services, ancillary units/entities, athletics and externally-funded academic centers. UKIA also accounts for continuous and unplanned activities by examining the hours spent in prior years on inquiries, follow-up reviews, stakeholder outreach and consultations. In FY2022-23, UKIA spent 2,681 hours on 26 inquiries, 1,347 on 16 follow-up reviews, 1,061 hours on stakeholder outreach and 973 hours on consultations.

The ACC had no questions for Mr. Reed. Chair Daniels asked for a motion to approve the FY2024-25 work priorities. Trustee Pope motioned to approve; Trustee McCoy seconded the motion, and the FY2024-25 work priorities passed without dissent.

B. <u>UK Consolidated Audit to Include the Hospital System</u>

UK Treasurer Penny Cox presented a recommendation to eliminate a separate financial statement for UKHC and instead include it as part of FORVIS' FY 2023-24 audit of the University. Treasurer Cox said that the financial statement is included in the University's consolidated, year-end audited financial statements. The recommendation would allow for better resource optimization at the busiest time of the year and ensure that all statements are delivered to the Commonwealth of Kentucky by October 4, 2024. Treasurer Cox noted that the hospital is not a separate stand-alone entity, and there is no separate hospital revenue indenture for bonds. The University's credit rating agencies expressed no concerns since all debt is issued under a general receipts pledge. She also indicated that the majority of the University's benchmark institutions do not produce a separate financial statement for health care.

Trustee McCoy asked if was necessary to produce a separate UKHC financial statement. Treasurer Cox responded that a separate statement is not necessary. She further indicated that UKHC does not receive a separate credit rating. And, that the consolidated audited financial report provides a clear and unified depiction of the financial position of the University to stakeholders and rating agencies. UKHC will continue to provide regular financial management reports for the clinical enterprise at each meeting of the UK HealthCare Committee of the Board.

Chair Daniels asked for a motion to approve the inclusion of the Hospital System in the UK Consolidated Audit. Trustee Black motioned to approve; Trustee Greer seconded the motion, and the recommendation passed without dissent.

VI. <u>Adjournment</u>

With no further business to come before the Committee, Chair Daniels adjourned the meeting at 1:30 p.m.

Respectfully Submitted,

Skylar Bensheimer
Editorial Assistant
UK Internal Audit