

Audit and Compliance Committee Meeting
Harris Ballroom, Gatton Student Center
December 2, 2024

The Audit and Compliance Committee (ACC) met on December 2, 2024, in the Gatton Student Center, Harris Ballroom.

I. Call to Order

Chair Ray Daniels called the meeting to order at 1:01 p.m.

II. Roll Call

The following members of the ACC were in attendance: Claude “Skip” Berry III, Cathy Black, Janie Greer, Elizabeth McCoy, Hannah Miner Myers, Paula Leach Pope and Hollie Swanson.

III. Approval of Minutes – September 14, 2024

Chair Daniels reported that the minutes of the September 14, 2024 meeting had been distributed. Trustee McCoy motioned to approve the minutes, and Trustee Pope seconded. The motion carried without dissent.

IV. Reports and Discussion Items

A. New Institute of Internal Auditors Global Standards and Quality Assurance Review

Chair Daniels introduced Deputy Accountability Officer and Audit Executive Martin Anibaba to present UK Internal Audit’s (UKIA) adoption of the Institute of Internal Auditors’ new Global Internal Audit Standards Framework and preparation for the 2025 Quality Assurance Review (QAR). The new standards were released on January 9, 2024, with an effective date of January 9, 2025. They focus on enhancing oversight, improving quality and increasing the efficiency and effectiveness of operations.

Prior to this, the most recent update to the standards was in 2017. That iteration had five mandatory categories composed of attribute and performance standards which provided guidance and established expectations for internal audit functions. The 2017 standards emphasized stakeholder communication but did not anticipate the rapid shifts in technology that occurred in the following years.

Conversely, the new standards aim to address the challenges and opportunities that come with advancements such as artificial intelligence (AI), thereby enabling internal audit functions to better adapt to client and organizational needs.

The 2025 standards comprise five domains. The first domain, “Purpose of Internal Auditing,” emphasizes the importance of proactively supporting the organization’s growth and

resilience in alignment with organizational strategic goals.

Domain Two, “Ethics and Professionalism,” outlines the behavioral expectations for internal auditors, with the goal of ensuring trust, credibility and objectivity in all audit engagements.

Domain Three, “Governing the Internal Audit Function,” provides a framework for independence and effectiveness. This domain offers guidance on establishing clear reporting lines, defining roles and responsibilities as well as working in alignment with organizational objectives.

Domain Four, “Managing the Internal Audit Function,” requires internal audit to create a strategic plan, which includes resource allocation, performance monitoring, the consideration of staff expertise and the development of an audit plan that prioritizes high risk areas.

The fifth and final domain, “Performing Internal Audit Services,” gives guidance for planning and conducting audits, including documenting findings and providing the client with actionable recommendations.

Mr. Anibaba then detailed how UKIA adopted the new standards early. For Domain Two, UKIA has already developed robust expectations for ethical and professional behavior, which prioritize integrity and guide UKIA’s daily operations. Similarly, UKIA’s existing governance structure and authority comply with Domain Three, and UKIA developed a five-year strategic plan in 2020, which complies with Domain Four. However, UKIA intends to regularly update the plan to ensure it aligns with priorities as they evolve. Additionally, UKIA plans to hire a Quality Coordinator to assist with QAR readiness. In compliance with Domain Five, UKIA plans its engagements thoughtfully based on information in UKIA’s audit universe database. UKIA also communicates with clients effectively and monitors their remediation progress, assisting as needed.

Transitioning to the QAR, Mr. Anibaba said that per the Institute of Internal Auditors, UKIA is required to undergo an external review every five years. UKIA began its quality assurance program in 2007 and completed an internal readiness assessment in the same year. UKIA has since undergone three QARs — in 2009, 2014 and 2020 — and has received the highest score of “generally conforms” in all three. The categories reviewed were governance, staff, management and process. In 2009, UKIA had some subcategories that received “partially conforms,” but these did not lower the overall rating.

Mr. Anibaba then discussed the internal audit capability maturity model, a framework that helps internal audit functions evaluate their capabilities and identify areas for improvement. The framework is divided between five maturity levels.

Level five, “Optimizing,” indicates that the function is highly strategic, prioritizes continuous improvement, uses advanced tools and is significantly integrated with the organization’s broader risk management and strategic goals.

Level four, “Managed,” indicates that the function uses data and metrics to drive

decision-making. These functions have well-defined processes and use qualitative analysis to support continuous improvement.

Level three, “Integrated,” indicates that the function’s processes are fully standardized and documented and that the function is aligned with organizational goals, operates strategically and actively measures its performance.

Level two, “Infrastructure,” indicates that the function has defined audit processes that are not standardized, resulting in inconsistent engagements.

Level one functions are defined as “Initial,” operating with little or no standardization and possibly producing unreliable audit results.

Mr. Anibaba said that UKIA uses this framework to assess itself internally. In the current internal assessment, UKIA has reached level four, with the only exception being performance management and accountability. To improve these areas, UKIA has established monthly meetings to review metrics and project milestone meetings to gain better oversight of its performance. UKIA has also begun to accelerate its Accountability Office activity, which will further improve this category and enhance risk mitigation and remediation for the enterprise.

Trustee Swanson asked how they should educate the enterprise community to ensure that the use of AI abides by ethical and professional standards.

Mr. Anibaba replied that UKIA developed an internal policy on the use of AI that prohibits its staff from entering University information into AI tools/models. While UKIA does not make decisions for the University, AI usage is on UKIA’s radar.

B. Accountability Office Activity Report

Chair Daniels introduced Chief Accountability Officer and Audit Executive Joe Reed to report on UKIA’s Accountability Office activity. Mr. Reed said that the Accountability Office was formed in September 2020 in alignment with principle four of UK’s strategic plan, “Ensuring greater trust, transparency and accountability.”

The Accountability Office’s methodology for evaluation includes three components. The first component is guidance, which includes federal and state regulations as well as University policies. Component two is adherence, as each employee and unit is responsible for complying with federal, state and University requirements. The final component is validation, during which the Accountability Office continually reviews workplace practices for adherence.

The Accountability Office’s activities are indicated generically on UKIA’s FY 2024-25 work priorities as *Institutional Compliance*. UKIA’s work priorities are informed by seven business risk factors and 20 components, numbered one-20. Component 16, event identification, factored into all three of the Accountability Office’s current projects, meaning that if a negative event related to these activities occurs, the consequences would be severe.

The first of the three Accountability Office projects is international travel, which is owned by UK's International Travel Center. This activity poses significant risks related to traveler registration and employee safety. The project began on December 1, 2023, and is in the communication phase, during which the Accountability Office meets with the process owner and pertinent units.

The second project is related to the University's Willed Body Program, which is owned by the College of Medicine and enables individuals to donate their bodies for medical education and research purposes. The Accountability Office identified recording, tracking, donor intent and data integrity as significant risks associated with this activity. This project began on October 23, 2023, and is in the validation phase.

The third project is related to motor vehicle records, owned by Risk Management. The associated risk is reduced safety due to the potential for individuals to drive while on University business who do not have a valid license or a sufficient driving record per UK's policy. This project began on October 29, 2024, and is also in the validation phase.

Mr. Reed then detailed the results of the international travel project. The Accountability Office evaluated all international trips taken by individuals on behalf of the University during Calendar Year 2023 to determine whether travelers had registered with the appropriate UK travel registry. These trips totaled 2,979, 169 of which were taken by individuals who had not registered appropriately. Seven of the 169 trips were to countries that were under a travel advisory. Traveling without registering could create challenges if the traveler needs assistance returning to the United States.

The Accountability Office has extensively communicated the results of its international travel project. Such communications include meeting with the five units that had the highest rates of unregistered travelers as well as meeting with the International Travel Center, University Financial Services and Risk Management. Results were also disseminated via UKIA's website and Lessons Learned (UKIA-produced webinar), as well as memorandums to UK HealthCare leadership and college deans, with pending communications to academic chairs.

Transitioning to the Willed Body Program, Mr. Reed said that the project's purpose is to provide University management and families with reasonable assurance that the dignity of each donor is upheld throughout the cadaver donation process. The Accountability Office held an opening conference to introduce the project on May 20, 2024, and provided a status update to the process owner on October 16, 2024. This project focuses on the protocols and oversight related to the pre-study, study and post-study phases of cadaver research as well as the communications with the donors' families.

Mr. Reed then detailed the motor vehicle records project. All UK employees whose job descriptions include driving responsibilities must submit a Motor Vehicle Record Release and Information Form to Risk Management. The Accountability Office is assessing the completeness of these forms to reduce risk to the University.

Lastly, Mr. Reed provided an overview of the Accountability Office's three additional projects related to ongoing partnerships. These projects include records management, which

focuses on the University's records retention and destruction practices, as well as capital construction, which focuses on the efficiency and effectiveness of capital construction projects. The third project is conflicts of interest and commitment, the purpose of which is to revise the University's conflicts of interest and commitment program, including updated policies, processes and systems.

In reference to the records management project, Trustee Swanson asked how long records at the University are being stored. Mr. Reed said the length of retention varies, but many records, such as those related to research, are being stored in perpetuity.

C. Results of the FY 2023-24 Financial Statement Audit

Chair Daniels introduced Mary McKinley and Joanie Duckworth from Forvis Mazars to report on the FY 2023-24 audited financial statements and independent audit results. This audit excluded the financial statements of the Kentucky Medical Services Foundation (KMSF) and Insure Blue, which were reviewed separately by different auditors.

This audit concluded with a clean, unmodified opinion on the University's 2023-24 financial statements, indicating that they had been prepared according to accounting standards and without material misstatement. Ms. McKinley stated that the audit team had two outstanding reports to issue, one for uniform guidance and federal funds and another for public broadcasting.

Ms. Duckworth then said that the audit team had no matters to report regarding significant accounting policies (i.e., new accounting standards), unusual policies or methods or alternative accounting treatments. The management judgments and accounting estimates, which include estimates such as the allowance for doubtful accounts and self-insurance reserves, were unchanged from the previous year. Similarly, the financial statement disclosures were consistent with the previous year.

The audit team had no reportable matters regarding the quality of the University's accounting principles, nor did they report any auditor-proposed and recorded adjustments to the financial statements. However, there was one management-identified adjustment related to the valuation of alternative investments (some investments within the University's endowment were valued as of March 31 and were adjusted for a valuation through June 30), but the misstatement was determined to be immaterial.

There was one significant issue discussed with management related to the member substitution agreement for St. Claire Medical Center that was discussed prior to the issuance of the audit report.

There were no questions.

D. FY 2023-24 Agreed Upon Procedures

Chair Daniels introduced UK Treasurer Penny Cox to present the FY 2023-24 Agreed Upon Procedures (AUP). Ms. Cox stated that Forvis Mazars delivered an unmodified opinion

of the University's financial statements, noting that the University maintains a strong balance sheet and income statement. The University had a total net position of \$8.6 billion, which was an increase of 15 percent or \$1.12 billion over the prior year.

Ms. Cox then discussed the AUP for financial data submitted to the National Collegiate Athletic Association (NCAA). The NCAA's bylaws require that an independent accounting firm verify the accuracy and completeness of financial statements for the University's Department of Intercollegiate Athletics. Forvis Mazars reported no exceptions for these financial statements. The final athletics report will be presented to the Athletics Committee in February 2025.

Ms. Cox then detailed the AUP for Eastern State Hospital and Central Kentucky Recovery Center, which were established in a contract between the University and the Commonwealth of Kentucky. These procedures were performed by representatives of UK HealthCare and the Department of Behavioral Health, Developmental and Intellectual Disabilities to verify the accuracy and completeness of budget to actual statements of activity. No significant items of concern were noted in this report.

Lastly, Ms. Cox detailed the AUP for the Kentucky Medical Services Foundation, Inc. (KMSF). These procedures were performed to assess compliance with the terms of the agreement between the University and the KMSF. No significant items of concern were noted in this report, which was addressed to the boards of the University and of the KMSF.

There were no questions.

VI. Adjournment

With no further business to come before the Committee, Chair Daniels adjourned the meeting at 1:45 p.m.

Respectfully Submitted,

Skylar Bensheimer
Editorial Assistant
UK Internal Audit