

MINUTES OF THE AUDIT AND COMPLIANCE COMMITTEE
University of Kentucky Board of Trustees
Lewis Honors College
June 21, 2018
3:30 p.m. - 4:30 p.m.

Committee Members Present

Claude Skip Berry, III, Jennifer Barber, James Booth, Mark Bryant, Angela Edwards, and David Hawpe

Approval of Minutes

The minutes from the May 1, 2018 Committee meeting were introduced. Trustee James Booth made a motion to accept the minutes, Trustee David Hawpe seconded the motion. The May 1, 2018 Audit and Compliance Committee meeting minutes were approved as presented.

Reports and Discussion Items

UK NCAA, EHS, and KMSF Agreed Upon Procedures Signed Engagement Letters

Presented by: Susan Krauss, Treasurer

At the last meeting, the engagement letter with Baird, Kurtz & Dobson (BKD) for the external audit of the financial statements for the University for the year ended June 30th, 2018 was shared. In connection with the external audit, they also will perform certain agreed upon procedures (AUP) engagements. The first AUP engagement letter relates to procedures to be performed as required by the (National Collegiate Athletic Association) NCAA and is an engagement that is performed every year. The second AUP engagement letter details procedures to be performed as required by the state related to the management of Eastern State Hospital (ESH) and Central Kentucky Recovery Center; there have been no changes to these procedures as compared to prior years. The third AUP engagement letter is related to the contract between Kentucky Medical Services Foundation (KMSF) and University of Kentucky. Results from all Agreed Upon Procedures engagements will be brought to the Committee at the December 2018 meeting along with the results of the external audit.

There were no questions from the Board.

UKIA First Quarter Work Plan Fiscal Year 2019

Presented by: Joe Reed, Chief Audit Executive

Prior to presenting the First Quarter Work Plan for review and approval, the fourth quarter activity was reviewed. The Fourth Quarter Work plan activity was prepared in late January and presented at the February 2018 Audit and Compliance Committee meeting; it was a forecast. The Work Plan has four sections that show the following activity:

- Compliance Program – the chart shows the current activity completed and activity that carried forward from the third quarter. A review of the fourth quarter activity included the completion of process validations or unannounced audits as well as associated reports which were distributed to the Board. University of Kentucky Internal Audit (UKIA) is currently working through the new activity and expects to have all Compliance Program Audits completed by the end of Fiscal Year 2018. Consequently, two new projects for first quarter are proposed.
- Business / Operations – Three medical center and two campus side comprehensive reviews will be carried into the first quarter of 2019.
- Information Technology – Data mining on the systems side which coincides with the Compliance Program and Business Operations comprehensive reviews. Additionally, there are two Information Technology reviews within UK Health Care, and one in data security that will continue into the next quarter.
- Continuous Activities – Four follow-ups for previous audits will carry through to the first quarter. The inquires and investigations come to UKIA through various reporting mechanisms. UKIA conducts inquires and, if something is validated, it moves on to an investigation.

When UKIA constructed the First Quarter Work Plan, the hours forecast from the type of activity and the services offered are considered. A review of UKIA's current available hours, including the current headcount of staff, excluding Mr. Reed and the infrastructure support staff, is currently 13. Internal Audit's available hours after accounting for our current

assignment hours, training, and administration duties are 6,340, with available hours of approximately 5,000 for new First Quarter Work Plan activity.

There were no questions from the Board.

Chair Berry introduced ACC1, Fiscal Year 2019, First Quarter Work Plan for Committee approval. A motion was made by Trustee Barber and seconded by Trustee Edwards.

ACC1 was approved.

UKIA Fiscal Year 2019 Budget Review

Presented by: Joe Reed, Chief Audit Executive

A University of Kentucky Internal Audit budget and headcount comparison to Southeastern Conference (SEC) schools was presented by Mr. Reed. Among the 14 SEC schools, UKIA's overall budget is in the top four. A comparison of budgets cannot be directly compared to all SEC schools, as some are systems and others do not have an Academic Medical Center. The most accurate comparison would be the University of Missouri and the University of Florida, as UK considers these two institutions to be benchmarks. During a recent 2018 SEC conference, Mr. Reed discussed infrastructure requirements for an efficient and effective internal auditing function. This presentation included staff support positions and responsibilities as well as current personnel within the UKIA office. UKIA has an external communication liaison and a project specialist, which allows audit professionals to focus on a particular audit assignment. Additionally, the information technology auditing focus and infrastructure employed by UKIA was orally discussed. All agreed that Information Technology and Information Systems are critical to achieve future success as communicated from industry direction and with management expectations. The other college audit groups left the meeting considering how their infrastructure and organizational structure can be improved to support the internal auditing function.

UKIA's budget will increase by 6% to \$1.9M for Fiscal Year 2019. UKIA will have a total of four information technology auditors with distinct roles, including more focus on application audits. Identified revenue is generated to cover costs of the annual conference UKIA holds for internal audit personnel at Kentucky colleges and universities across the state. Additionally, software application costs, charged every four years, enable UKIA to conduct data analytics and have an electronic work paper structure. These expenditures are at the root of UKIA's operational efficiency and effectiveness.

There were no questions from the Board.

Other Business

No other business was discussed.

Adjournment

With no further business to discuss, Chair Berry asked for a motion to adjourn the meeting. A motion to adjourn was initiated by Trustee Barber and seconded by Trustee Bryant.

The meeting was adjourned.

Next Meeting

September 13, 2018

Respectfully Submitted,
Aleigha Colwell