

**We're on Your Team**

# UK Internal Audit 2020-21 Annual Report

 Internal Audit







# UK INTERNAL AUDIT (UKIA) FY 2020-21 ANNUAL REPORT

## TABLE OF CONTENTS

<b>INTRODUCTION FROM THE CHIEF ACCOUNTABILITY OFFICER AND AUDIT EXECUTIVE</b>	<b>3</b>
<b>UKIA FY 2020-21 ACHIEVEMENTS</b>	<b>5</b>
<b>FY 2020-21 FINANCIALS AND BENCHMARKING</b>	<b>8</b>
<b>UKIA FY 2020-21 SCORE CARD</b>	<b>9</b>
<b>UKIA TEAM ROSTER</b>	<b>13</b>



**MESSAGE FROM THE  
CHIEF ACCOUNTABILITY  
OFFICER AND  
AUDIT EXECUTIVE**



~ Joseph Reed ~

Dear Colleagues -

Throughout this past year, the UK community showed remarkable ingenuity, resilience and compassion as we worked together to achieve our primary goals of educating students, caring for patients and elevating Kentucky during some of the most trying times our state and nation have ever faced. New technology was implemented, new initiatives were launched and, as many of us adapted to hybrid schedules and working from home, new processes and procedures were developed to ensure that our students and all those who rely on UK across the Commonwealth would have no service disruptions.

Through it all, UK Internal Audit (UKIA) has been an integral part of this activity, helping the UK community to not only survive but thrive. Here are just a few of our accomplishments:

- Advisory services - We consulted with departments to provide guidance as they adapted to the COVID-19 environment, whether it was to help ensure internal controls remained in place as people worked from home or to help a department create entirely new protocols for activities that had never before been done on so great a scale.
- Unannounced audits - Far from sitting back and waiting on something to happen, we became even more proactive, launching new programs and services and executing new analytics to provide ongoing assurance in high-risk areas during a time when in-person reviews were rendered virtually impossible.
- Partnerships – We have strengthened our partnerships with the advent of monthly meetings with process owners to discuss trends and analytic results to facilitate a more proactive approach to mitigate risks across the university.
- Training – We partnered with University Financial Services (UFS), Human Resources (HR), UK HealthCare Finance, the University Budget Office, the Provost Budget Office and Information Technology Services to redevelop two classes on fraud using a web-based, on-demand format. Because they have been incorporated into the Finance and Administration Specialized Training (FAST) initiative, these valuable courses will be taken by more people on campus than ever before, helping to reduce the risk of fraud in every unit.
- Office of Accountability – We took on this new role last year, which focuses on assessing policy congruence, external audit review and fulfillment, communications conformance, contract compliance and conflicts of interest reporting.

On the lighter side, earlier this summer, the UKIA staff gathered together on Kroger Field. It was the first time we had all been together in person in more than a year. We caught up. We laughed. Standing in the middle of that grand stadium even inspired some of us to hold an impromptu race (who won is still a bone of contention). But the reason we met in that iconic location was to have our staff photo taken in a place that simultaneously evokes both team spirit and teamwork because, first and

foremost, we want you to know we are part of a dedicated team – YOUR TEAM.

***"Any weaknesses we identify in the course of our reviews are intended to make us stronger by improving efficiency and effectiveness, and that is a win for the entire university."***

This belief is ingrained in our mission statement, which is recited proudly at every staff meeting: "To support UK in its pursuit of excellence by providing expert analyses and advice to champion the achievement of management objectives."

But what does this mean for you? It means we exist to help each and every unit at UK improve its processes, strengthen its protocols and enjoy greater success. Any weaknesses we identify in the course of our reviews are intended to make us stronger by improving efficiency and effectiveness, and that is a win for the entire university.

**JOE REED**

Chief Accountability Officer (CAE) and Audit Executive





# UKIA FY 2020-21 ACHIEVEMENTS

Fiscal year (FY) 2020-21 was undoubtedly one of the most challenging years the university has ever faced in its 156-year history. And while the health and safety of our students, faculty and staff were certainly the priority, the effects of the pandemic also had an unprecedented impact on university operations. Virtually every program and process had to be reimagined and retooled to adjust for a remote or socially distanced environment. Such changes came with their own set of risks, but UKIA was up for the challenge:

## Office of Accountability

In September 2020, UKIA took on the added role of the Office of Accountability. Born out of the university's desire for all its units and functions to be more transparent, answerable to their actions and responsible for their outcomes, this office will focus on policy congruence, external audit review and fulfillment, communications conformance, contract compliance and conflicts of interest management. Staff was hired in June to begin this critical new role.

## Analytics

UKIA devoted additional resources to its analytics program as a means of providing ongoing supplemental assurance during a time when traditional in-person reviews were rendered virtually impossible. These analytics are currently helping to monitor employees being paid as vendors, with any anomalies and operational improvements discussed during regular meetings with the process owners.

## Cybersecurity Reviews

Lacking the ability to perform many of our traditional repetitive audits (e.g., procard and non-exempt overtime compensation reviews), UKIA went high-tech and launched a series of new cybersecurity repetitive reviews. Such audits can be performed remotely and assess web application security through review of the unit's policies and procedures related to the management and documentation of its web application assets, as well as testing and analysis of existing web application security. Cybersecurity reviews planned for the next Fiscal Year include endpoint vulnerability management and configuration, phishing awareness, account de-provisioning, server configuration, IT asset management and cybersecurity incident response.

## Training

UKIA once taught two classes on fraud, but they were redeveloped in FY 2020-21 into web-based courses as part of the FAST initiative in collaboration with UFS, HR, UK HealthCare Finance, the University Budget Office, the Provost Budget Office and Information Technology Services. Now that they are incorporated into the required curriculum for all business officers and others across the enterprise, more UK staff than ever before will receive this invaluable training to learn to identify signs of fraud. As the most effective way to prevent fraud is better detection capabilities, these courses will provide immeasurable assurance against fraud going forward.

(Continued on page 7)





## ACHIEVEMENTS, CONT.

### Expanded Consultations and Partnerships

To ensure internal controls did not falter as departments adapted to the COVID-19 environment, UKIA performed consultations and established new partnerships to help units establish pragmatic, yet effective protocols to remain compliant as they worked remotely. Then, as operations began to return to normal this spring, the open lines of communication established through these partnerships have continued and evolved, facilitating a nimble and dynamic response to address concerns quickly and vanquish emerging risks before they become an issue. These partnerships include information security and business-focused partnerships as described below:

#### Information Security

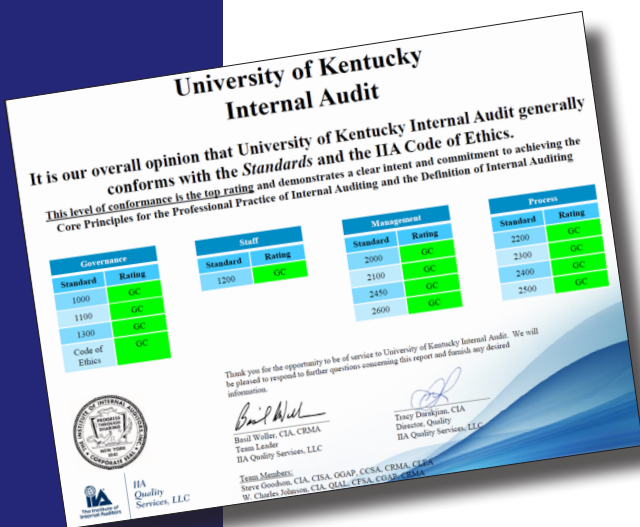
- Virtual cybersecurity “tours” were conducted in collaboration with UK Information Technology Services and UK HealthCare Information Technology, which involved meeting with deans, administrators and Information Technology leadership personnel across the enterprise to increase awareness of recent cybersecurity events and discuss best practices for cybersecurity governance and operations.
- Standing meetings are held with the university's chief information officers to discuss current activities, regulatory changes, high-risk areas, new positions and more. UKIA then partners with Information Technology Services and UK HealthCare Information Technology on new initiatives and protocols to effectively tackle these issues. Regular meetings are held with relevant stakeholders across campus to share audit trends related to information security.

#### Business

- Partnerships were established with process owners, including Purchasing, UFS, HR and UK HealthCare Finance, to discuss audit trends that impact the processes they oversee. Ongoing meetings help stimulate preemptive solutions that remediate the risk at the root before it occurs in other areas.
- Restitution policies are reviewed with the Office of Legal Counsel, Risk Management and UFS.
- A monthly meeting is held to brief senior leadership across the university on pervasive and/or high impact, high visibility issues that may necessitate intervention or executive-level action.

### Quality Assessment Review

UKIA completed its third Quality Assessment Review (QAR) in 2020, which UKIA received “Generally Conforms,” the highest possible rating, in all four categories of Governance, Staff, Management and Process. To achieve this rating, the Institute of Internal Auditors (IIA), which conducted this review, stated that UKIA “demonstrates a clear intent and commitment to achieving the Core Principles and the Definition of Internal Auditing... Their ability to adapt and be responsive to change, combined with their ability to leverage insight on risks impacting the organization into focused audit plans, will continue to be critical to their success and value to UK.” One of the IIA's recommendations was to develop a strategic plan. Accordingly, UKIA immediately began development in FY 2020-21.



## FY 2020-21 FINANCIALS AND BENCHMARKING

Not surprisingly, the pandemic also had a profound impact on UKIA's actual expenditures. While UKIA did bring on one new auditor while working remotely, personnel savings were realized as several other positions were intentionally delayed due to the operational challenges of onboarding new employees -- and making them feel welcome -- under these circumstances.

Travel expenditures were zero and the Kentucky College and University Auditors meeting that UKIA ordinarily hosts had to be canceled for the second year in a row due to COVID-19.

While all departmental gatherings were canceled during this time, it did not eliminate the fun. To keep up morale, staff gathered weekly on zoom for a “social distancing affair” during which they talked about everything but work. In celebration of the high scores UKIA received in the QAR in November 2020, staff was also treated to a donut delivery to their homes.



As most staff worked from home, UKIA had some operational savings as well, as very few supplies were used and the number of copies declined significantly.

	FY 2019-20 Actuals	FY 2020-21 Actuals
<b>Personnel</b>	\$1,731,829.00	\$1,668,891.40
<b>Travel</b>	\$21,715.00	\$0
<b>Operations</b>	\$193,743.60	\$153,705.80
<b>Income</b>	(\$350.00)	-
<b>Total</b>	\$1,946,938.00	\$1,822,597

### Benchmarking

With 13 auditors (five IT auditors, two special investigators, five business auditors and one accountability auditor), UKIA had one auditor for every 2,252 students in FY 2020-21. In fact, among respondents to a survey of internal audit departments at Big XII and southeastern conference (SEC) schools conducted by the University of South Carolina, only Vanderbilt and University of Texas at Austin had better ratios, with one auditor

for every 1,487 and 1,741 students respectively. In that same survey, UKIA's audit staff also ranked sixth in terms of the size of its audit team. However, UKIA's \$1.8 million budget in FY 2020-21 comprised just .04 percent of the university's \$4.4 billion budget, putting UKIA 16th in terms of its budget size relative to the entire university (or system) budget among responding Big XII and SEC schools.



## UKIA FY 2020-21 SCORE CARD

Over the past year, UKIA had to make many new and uncharted decisions to adapt to the coronavirus pandemic. For instance, follow-up reviews had to be halted, which precluded UKIA from establishing a remediation metric this year. Additionally, trainings were ultimately transitioned to web-based classes under Human Resources Training and Development. As UKIA was no longer teaching these courses, the client satisfaction metric regarding these classes was eliminated. The remaining metrics of partnerships, productivity, contacts, client satisfaction, audit duration and audit coverage still demonstrate UKIA's success in providing valuable service and reasonable assurance to the university.

### PARTNERSHIPS 8 (Goal: 6)

Eight unique partnerships were established that were predominantly focused on helping the university to validate cost savings initiatives, confirm appropriate compensation and improve monitoring protocols for purchasing.



*"I just wanted to take a minute and recognize your work - the document is thorough, accurate, and an excellent path forward for the university. It's clear that a significant amount of effort and expertise went into developing this document. I'm grateful for the work you do to support UK."*

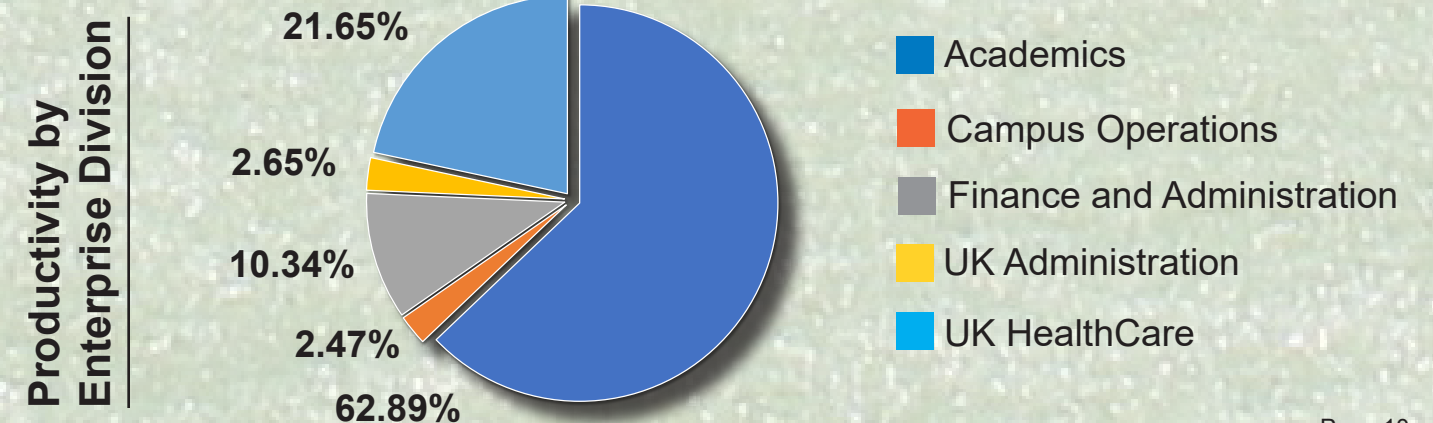
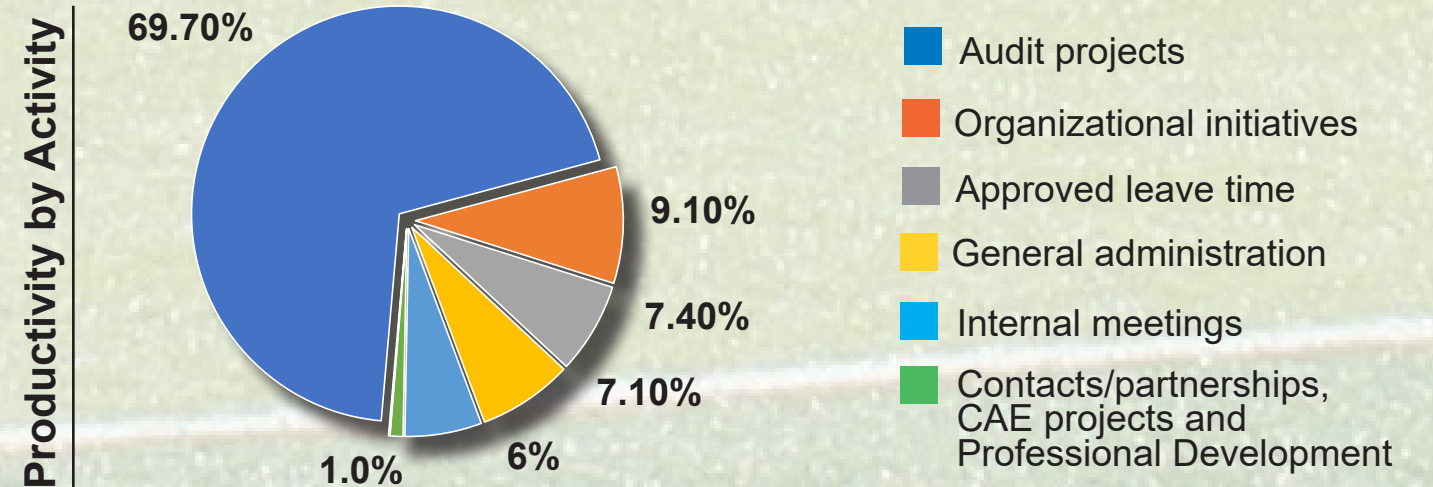
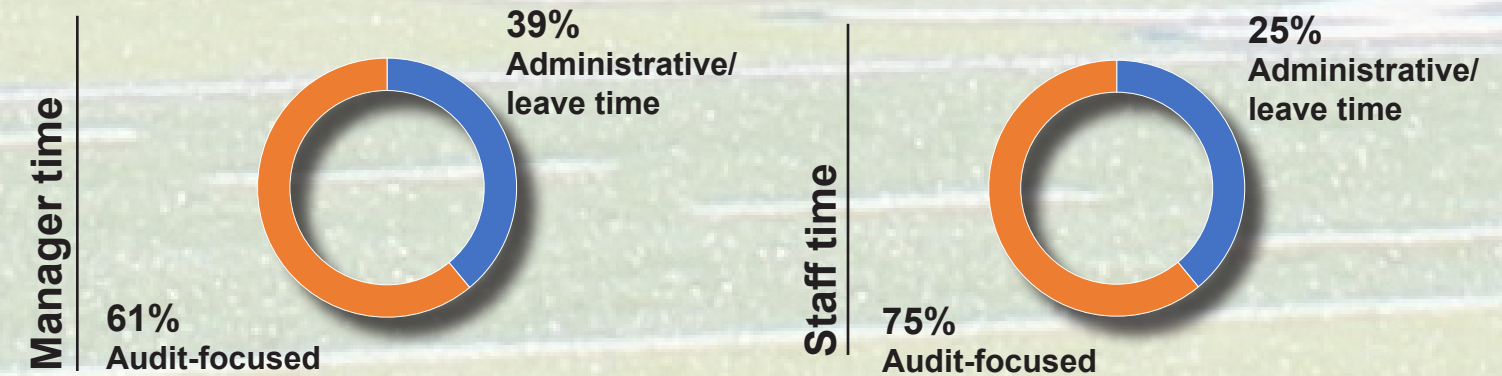
### CONTACTS 26 (Goal: 48)

This is a conservative estimate, based on the first six months of this Fiscal Year, during which 13 contacts were documented and the historical averages for this metric since UKIA began tracking contacts in FY 2017-18. Vacancies within UKIA, coinciding with the sudden and unexpected office relocation, precluded UKIA's ability to precisely track the number of contacts during the latter part of the year.



## PRODUCTIVITY Manager: 61% (Goal: 60%) Staff 75% (Goal: 75%)

UKIA had 23,221 total hours dedicated to projects, of which 16,411 were devoted to audit projects. Furthermore, UKIA averaged 70.67 percent between the audit staff and the audit managers.





### CLIENT SATISFACTION 4.0 (Goal: 5.0)

UKIA surveys its audit clients<sup>1</sup> to obtain insight on auditors' professionalism, preparation and communication, as well as feedback on the clarity and effectiveness of the audit report and recommendations. For FY 2020-21, the overall score was 4.0/5.0. UKIA prides itself on listening to clients and working with them to accommodate their scheduling needs without sacrificing the efficacy of the audit and it shows. The highest average scores related to how we took into consideration the areas of greatest concern for them (4.7) and the efforts to which UKIA auditors went to minimize disruption in the units as they went about their work (4.5).



<sup>1</sup> Audit clients surveyed normally include clients of all audit types with the exception of inquiries and investigations; however, no repetitive audits or follow-up repetitive audits were performed in FY 2020-21 due to the COVID-19 environment.



### AUDIT COVERAGE 88% (Goal: 100%)

UKIA's audit coverage metric measures the degree to which the processes, units and applications noted in its FY 2020-21 Work Prioritization were evaluated and addressed through the reviews conducted throughout the year. UKIA completed 22 reviews in FY 2020-21, achieving 88 percent audit coverage despite not being able to perform two of its service types – repetitive and repetitive follow-up reviews – due to the COVID-19 environment which precluded in-person interviews, physical examinations and walk-throughs for much of the year. Thanks, in part, to the web application security reviews launched in the fourth quarter of the fiscal year, 100 percent of the high-risk applications were addressed through at least one review. Five of the six units deemed high-risk on the work prioritization were reviewed and eight of the ten high-risk processes were addressed through at least one review.

### AUDIT DURATION 4.74% Over Budget

UKIA'S dynamic work prioritization enables us to adapt as new risks emerge. As a result, audit duration must be measured in terms of hours expended rather than in weeks. UKIA attributes the slight overage to adapting to working from home and the use of new tools and methods to complete assignments, e.g., Zoom meetings and confined home workspaces that do not allow for multiple monitors, etc.

AUDIT TYPE	HOURS BUDGETED BY AUDIT TYPE	TOTAL HOURS BUDGETED*	TOTAL HOURS EXPENDED*	% OF BUDGET
Standard Comprehensive	1,000	2000	2,355.5	117.78
Standard Follow-up Comprehensive	500	500	218.5	43.7
IT Audit	1,000	1,000	1,185.0	118.5
Repetitive	200	400	315.5	78.88
Follow-up Repetitive	150	N/A <sup>1</sup>	N/A <sup>1</sup>	-
Inquiries	40	240	726.75	302.81
Investigations	500	4,000	4,137.11	103.43
Consultations	500	1000	638.5	63.85
<b>Total</b>	-	<b>9,140</b>	<b>9,576.86</b>	<b>104.78</b>

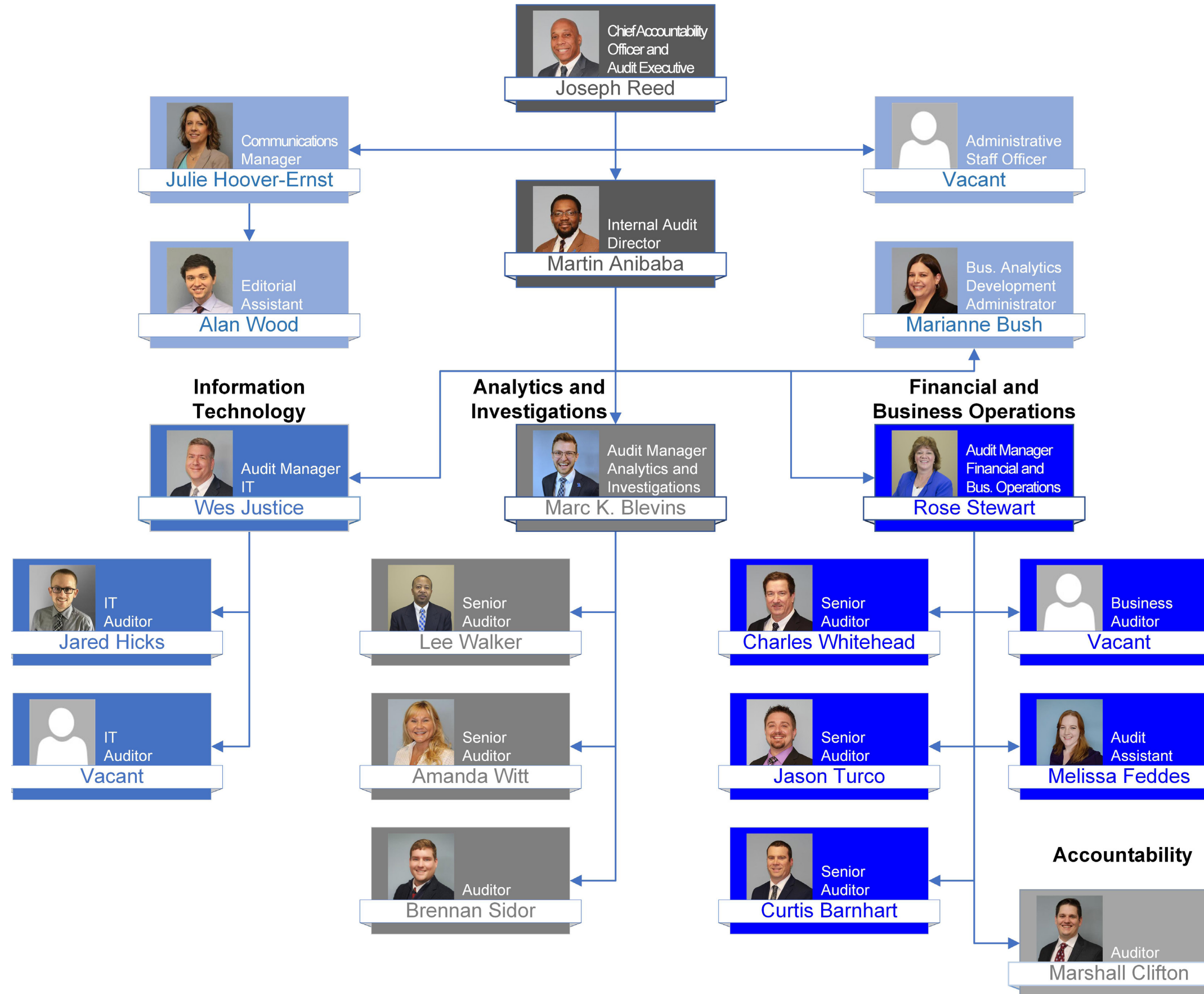
\*Includes hours for completed projects only.

<sup>1</sup> Due to the COVID-19 environment, follow-up repetitive reviews were not conducted.





**TEAM ROSTER**



**FINANCIAL AND BUSINESS OPERATIONS**

The Financial and Business Operations team is responsible for comprehensive and repetitive reviews. These reviews ensure compliance with applicable laws and regulations, the integrity of financial reporting, the safeguarding of assets and operational efficiency and effectiveness.

**ANALYTICS AND INVESTIGATIONS**

The Analytics and Investigations team works to validate inquiry events, identify fraud and leverage technology to review large amounts of data and substantiate any anomalies.

**INFORMATION TECHNOLOGY**

The objectives of an Information Technology review are to validate the effectiveness and efficiency of University Information Technology resources, assess data integrity, confirm compliance with UK policies and procedures and verify that proper controls are in place to protect computer applications and the computing environment.

**ACCOUNTABILITY**

This office will focus on policy congruence, external audit review and fulfillment, communications conformance, contract compliance and conflicts of interest management.



# UK Internal Audit 2020-21 Annual Report



University of Kentucky Internal Audit  
1648 McGrathiana Parkway, Suite 340  
Lexington, KY 40511  
(859) 257-3126  
[internalaudit@uky.edu](mailto:internalaudit@uky.edu)