

Audit and Compliance Committee Meeting
Gatton Student Center, Harris Ballroom
Thursday, February 22, 2024

The Audit and Compliance Committee (ACC) met on February 22, 2024, in the Gatton Student Center Harris Ballroom.

I. Call to Order

Chair Ray Daniels called the meeting to order at 1:07 p.m.

II. Roll Call

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

Trustee Claude “Skip” Berry III attended the meeting via Zoom.

III. Approval of Minutes – December 4, 2023

Chair Daniels reported that the minutes of the December 4, 2023, meeting had been distributed. Trustee Pope motioned to approve the minutes, and Trustee McCoy seconded. The motion carried without dissent.

IV. Reports and Discussion Items

A. UK Internal Audit Activity Update for Quarter Two of FY 2023-24

Chair Daniels introduced Chief Accountability Officer and Audit Executive Joe Reed to present the University of Kentucky (UK) Internal Audit’s (UKIA) activity update for the second quarter of FY 2023-24. Mr. Reed began by explaining that UKIA’s charter requires that UKIA regularly provide an activity update to the ACC. Mr. Reed then explained that UKIA uses seven business risk factors and 20 associated components to evaluate risks and determine UKIA’s priorities for the year. Based on this evaluation, UKIA develops its work prioritization plan for the Fiscal Year, which must be approved by the ACC each June. The plan is composed of processes, information systems and units that it will focus on for the Fiscal Year, as well as follow-up reviews and unplanned activities, such as inquiries and investigations.

Mr. Reed noted that UKIA has changed the format of its activity updates. Rather than summarizing activity by service type, UKIA grouped its reviews into three categories: enterprise-wide, UK HealthCare (UKHC) and Research. This change was due to the size and revenues of UK’s health care and research areas. Each category is further divided between active and completed reviews. Transitioning to the enterprise-wide assurance reviews that were active at the end of quarter two, Mr. Reed explained that UKIA had in progress one comprehensive review, one follow-up review and two repetitive audits. One repetitive audit was a review of the University’s student financial aid practices and protocols, while the other was an asset verification audit.

Mr. Reed then explained that UKIA had one active data analytic, which identifies UK employees who have potentially been paid as a vendor inappropriately. As of January 1, 2024, this analytic had identified 15 potential policy violations, eight instances of missing documentation and 20 additional concerns related to asset misappropriation and/or conflicts of interest. UKIA also had four active inquiries, which often identify opportunities for process improvements even if the associated allegations are unsubstantiated. Mr. Reed also detailed UKIA's seven active enterprise-wide partnerships, which are projects UKIA has undertaken in collaboration with units such as the University Budget Office, University Financial Services and UKHC.

Mr. Reed then transitioned to UKIA's completed enterprise-wide activities, which included one inquiry, one repetitive audit, one comprehensive review and a consultation that was closed because the agreed-upon procedures document had not been signed.

Mr. Reed then detailed UKIA's active health care reviews, which included 18 repetitive audits, primarily in different areas within the College of Medicine, two comprehensive reviews and one assessment. Repetitive audits are quick reviews that allow UKIA to trend results across the enterprise, while assessments are conducted to document controls and risks associated with an area or process prior to commencing a full audit. The two comprehensive audits had not officially started until quarter three, as their announcement letters had not yet been distributed. UKIA also had two consultative reviews in progress, which differ from assurance activities because they require UKIA and the client to agree upon the project scope and objectives.

Transitioning to Research, Mr. Reed explained that UKIA had one active repetitive audit and had completed two follow-up reviews.

In summary, UKIA had 29 active assurance projects and 12 active consultative projects. Mr. Reed also noted that UKIA strives to conduct multiple reviews for each process, unit and information system in its work prioritization, which enables UKIA to trend results and produce Lessons Learned, a quarterly training webinar.

Mr. Reed then explained that UKIA has a new office, the Office of Accountability, that focuses on areas at high risk for public exposure and those that require 100 percent compliance. The office had two ongoing projects, one of which concerned international travel registration and one related to the University's Willd Body Program.

The ACC had no questions for Mr. Reed.

B. FY 2023-24 Mid-Year Metrics

Chair Daniels introduced Deputy Accountability Officer and Audit Executive Martin Anibaba to present UKIA's mid-year metrics update. Mr. Anibaba explained that, like the activity update, UKIA is required by the UKIA Charter to present its metrics to the ACC. The metrics are divided into two categories: efficiency and effectiveness. Efficiency includes audit duration and productivity, while effectiveness comprises audit coverage, client survey results remediation and consultations. Mr. Anibaba then noted that UKIA's investment in new audit

management software has improved UKIA's activity tracking capabilities so that resource capacities and process bottlenecks can be identified sooner. This resulted in UKIA improving its productivity metric. However, UKIA's audit duration metric, which compares actual audit hours expended per project to each project's budgeted hours, has increased from being 11 percent over budget at the same time last year to being 75 percent over budget. Mr. Anibaba explained that this can be attributed in part to UKIA fine-tuning its methodology for budgeting hours for each individual project. Hours spent on comprehensive reviews were another contributing factor. To help reduce audit duration, UKIA will hold project kick-off meetings so that the audit team can evaluate the project objectives and adjust the scope if necessary.

Mr. Anibaba transitioned to UKIA's productivity metric, which measures UKIA's hours spent on productive activity versus infrastructure activity. Productive time includes audit activity and stakeholder outreach, while infrastructure time includes non-audit projects, administrative tasks, professional development, human resources activity, information technology support and work related to UKIA's audit data repository. Infrastructure excludes sick, annual and holiday leave. UKIA's managers exceeded their goal of 60 percent productive time in the first quarter and were five percent short of the goal in quarter two, both of which improved over the previous year. UKIA's auditors also improved over the previous year but were one to five percent short of their 75 percent goal each quarter.

Mr. Anibaba then noted that the audit coverage metric was covered in more detail during Mr. Reed's presentation, but that UKIA has reached 58 percent audit coverage at the mid-year point, which exceeds UKIA's expectation of 50 percent. Transitioning to metric four, Mr. Anibaba explained that UKIA has a goal of completing eight consultations or partnerships each year. As of December 31, 2023, UKIA had completed one consultation and had 11 additional consultations/partnerships in progress.

Metric five is remediation, which evaluates the progress clients have made in addressing audit findings. The goal is 100 percent, meaning that every finding from every audit should be resolved. Based on four reviews, UKIA's remediation metric was at 86.6 percent, an improvement from 79 percent during the same time last year.

UKIA's sixth and final metric is client satisfaction. UKIA distributes a survey to all personnel in clients' units with whom UKIA's audit staff had two or more interactions during an engagement. The survey asks personnel to rate on a scale from one to five their satisfaction with UKIA's staff, audit process, audit report and communication as well as a value-add to client. UKIA received an average score of 4.13, an improvement from 3.46 in the previous year. UKIA is evaluating ways to increase client responses, as none of the quarter two survey recipients responded. UKIA also surveys attendees of its Lessons Learned webinar. The most recent webinar addressed contract management and occurred in October 2023. One hundred percent of respondents indicated that they would likely attend another Lessons Learned event.

Trustee Swanson asked Mr. Anibaba what factors helped improve the client satisfaction scores. Mr. Anibaba explained that UKIA emphasizes improving the auditors' professional conduct and the quality of UKIA's communications.

V. New Business Items

A. FY 2023-24 Audit Engagement Letter

Chair Daniels introduced UK Treasurer Penny Cox. Ms. Cox explained that FORVIS has been the University's external auditor since 2016 and has two more years left on its contract. The cost for the FY 2023-24 engagement is \$694,000, a three percent increase from the previous year. This increase complies with the consumer price index language in the contract. The audit includes additional fees of \$148,000 for consulting and the audit of Royal Blue Health, LLC, and \$64,000 in fees for additional research programs. UK has recently submitted its Single Expenditure of Federal Funds, which is required of any federal program in excess of \$3 million. The audit services are for the basic statements of the University and its entities, which must be reviewed and voted on by the ACC per the ACC Charter. The engagement letter itself will be provided at the April 24, 2024, ACC meeting.

Chair Daniels then introduced ACC 1, Execute FY 2023-24 Audit Engagement Letter to be voted on by the ACC. Trustee McCoy motioned to approve the letter and noted that the price is very low for the services UK is receiving. Trustee Black seconded. The motion carried without dissent.

VI. Adjournment

With no further business to come before the Committee, Chair Daniels adjourned the meeting at 1:50 p.m.

Respectfully Submitted,

Skylar Bensheimer
Editorial Assistant
UK Internal Audit