

**MINUTES OF THE AUDIT AND COMPLIANCE SUBCOMMITTEE
OF THE FINANCE COMMITTEE
University of Kentucky Board of Trustees
September 5, 2014, 8:30 am
Suite A, 18th Floor Patterson Office Tower**

Subcommittee Members Present

Bill Britton, Chair, Jim Booth, Angela Edwards, Keith Gannon, Bill Gatton, David Hawpe and Jim Stuckert

Approval of Minutes

The minutes of the June 10, 2014 Audit and Compliance Subcommittee (ACS) meeting were approved as presented.

Reports and Discussion Items

BKD Offering Document Communication

Ms. Susan Krauss, Treasurer reviewed the BKD Offering Document Communication. This is a new communication to the governing board required by auditing standards. It relates to procedures BKD recently performed in connection with the June 2014 UK Bond Offering. The communication describes the procedures performed by BKD including: (1) Evaluating the Offering Document to ensure there were no inconsistencies with the June 30, 2013 audited financial statements (2) Performing a subsequent event review which involves reviewing minutes since October 1, 2013 and (3) Updating the management representation letter. BKD found no inconsistencies or misstatements of fact within the official statement.

UK Internal Audit August 2014 Quality Assessment Review (QAR) Results

Mr. Joe Reed, Senior Director of Internal Audit (UKIA) reviewed the *Quality Assessment Review Summary* presentation. He explained that a QAR is required of a functioning internal audit group every five years in accordance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. UKIA had a QAR in August 2009 and the most recent one in August 2014. The QAR was performed by Honkamp Krueger & Co., an independent consulting firm. Mr. Reed reviewed the three QAR types, noting that UKIA chose the “Full External Quality Assessment” because of the value added. He noted that UKIA received the highest QAR rating “Generally Conforms.” Mr. Reed then expounded on the QAR comments regarding UKIA’s innovative practices and above average overall satisfaction level. He also explained the QAR comments regarding improvement opportunities surrounding UKIA’s Quality Assurance & Improvement Program and engagement documentation. Next steps include distribution of the QAR draft report to UK Senior Management and the ACS. Management response will be sent to Honekamp Krueger to be incorporated in the final report. After Honekamp Krueger’s release of the final QAR report, UKIA will begin immediate execution of the recommendations.

Chair Bill Britton noted that the ACS will review the QAR report at the next meeting and mentioned that it was overall a very good report. Ms. Angela Edwards congratulated the UKIA team on the QAR. Discussion followed regarding UKIA staffing levels, professional training, services offered and the how UKIA addresses the University’s IT security. Mr. Reed also explained that UKIA uses its compliance program, comprised of continuous audits and continuous auditing, to review those University areas of higher risk.

Fiscal Year 2014 Activity Update—UKIA Annual Report

Mr. Reed reviewed the UKIA FY 2014 Annual Report. He highlighted items from the report sections:

Governance—This section lists UKIA’s reporting structure and seven governing documents. It also notes what UKIA is doing to adhere to each document.

Student Involvement- In the Fall 2013 and Spring 2014 Semesters, UKIA hosted two student interns and two groups of three students. Chair Britton noted that this is an example of how we can help our students gain job experience.

Educational Services and Community Involvement – This year UKIA presented several Fraud seminars to UK staff and faculty and also two Internal Audit Management seminars to students in the Management Auditing & Control Class. Community involvement included sponsoring the Kentucky Colleges & Universities Auditors Meeting and also presenting at the local Central Kentucky Chapter of the Institute of Internal Auditors.

Quality Improvement Program and Infrastructure- UKIA uses Quality Assessments and metrics to achieve continuous quality improvement. Regarding infrastructure, Mr. Reed highlighted UKIA's organizational structure and the use of the team approach and IT tools to assist with the auditing function.

Service Performed and Enterprise Divisions – To ensure coverage of the entire University, UKIA has segmented the University into six Enterprise Divisions. UKIA offers nine services that include Assessments, Information Technology Reviews, Investigations, Presentations, Continuous Audits, Continuous Auditing, Follow-Up Reviews, Consultations and Comprehensive Reviews.

Dashboard Results

Mr. Reed reviewed the dashboard used by UKIA to measure and report FY 2014 results. He noted that UKIA's total direct hours were 13,832. Planned activity included the Compliance Program comprised of Continuous Auditing Reviews and Continuous Audits that are conducted in high risk areas. The Business/Operations Audits lists the prevalent Comprehensive Audits, Assessments and Follow-up reviews performed. Each audit performed had an IT component, unless it was specifically excluded. Seven Information Technology Reviews were conducted. Unplanned Activity included consultations, inquiries and investigations. For FY 2014, unplanned activity accounted for 40% of the direct hours worked. Mr. Reed reviewed the status of the UKIA Metrics, noting that four of the six metrics were achieved for FY 2014.

Mr. Reed gave an update on the timeline of events involved in the Tao Investigation that comprised the bulk of the unplanned activity at the request of Chair Britton. Mr. Eric Monday, Executive Vice-President of Finance and Administration and Mr. Bill Thro, General Counsel discussed the changes that have been implemented as a result of this investigation including Fraud classes and the Business Managers Certification Program. Mr. Thro also discussed the mechanisms in place for lesser offenses. Mr. Monday commended the UKIA staff on their achievement understanding the unplanned activity. The unplanned activity converted to 3 FTEs. He suggested to perhaps add an FTE to the audit staff in FY 2015 and to increase the unplanned activity in the audit plan that the Board approves. Mr. Monday anticipates more unplanned activity in the future because of the culture change with more restrictions and compliance emphasis. Chair Britton wants to review related Governing and Administrative Regulations regarding potential weaknesses related to University monitoring of and consequences for inappropriate employee behavior. Mr. Thro noted that he would put an informational presentation together when requested.

There being no further business, the meeting was adjourned.

Next Meeting

Monday, December 8, 2014

- BKD Results of 2014 Financial Statement Audit
- Proposal to retain BKD
- UK Internal Audit Update

Respectfully submitted,

Catherine Miller