



**Internal Audit**



**Providing Reasonable Assurance to the University of Kentucky**

Internal Audit  
2006-07 ANNUAL REPORT

## **Message from the Director**

Approximately four years ago, UK Administration recognized Internal Audit (IA) was not strategically aligned or equipped to assist the university with meeting its top 20 objective as outlined in House Bill 1. UK's strategy in part was to hire a director who could both lead and incorporate a value added internal auditing function into its corporate governance. A new director was hired three and a half years ago with an objective of building such a program.

Since that time, IA has reached beyond the investigative transaction testing approach that was relied on in the past, to a more proactive risk based approach that emphasizes reasonable assurance. IA's services include advisories, investigations, prevention and detection reviews. These services are not restrictive to traditional auditing techniques which dominated previous audit work, but include preventative reviews based on best practices. Audit work is concluded with customary follow up.

During the last three and a half years, these value added services have been built around modernized processes supporting report accuracy, improved audit duration as well as encouraging management participation. In year one, the revised IA Charter, approved in the spring of 2005, and performance metrics, instituted in FY2005, were implemented to measure the efficiency and effectiveness of the IA function. In year two, the focus was on expanding University audit coverage. This was the first year IA had a proactive plan for UK HealthCare and the academic units. It was also the year IA initiated an information systems review through defining the Information Technology Audit Universe for the purposes of gathering all of UK's information system applications and server data. At the end of year three, this culminated with a readiness quality assessment in preparation for a quality assurance review, as recommended in the professional standards as best practice. This year IA introduced new preventative services based on audit trends and has included information systems in the core review process. Other notable achievements occurring this fiscal year and not captured in IA's metrics are:

- An abbreviated report format introduced for compliance activity

- Executive Reporting: year-end presentations to Provost, EVPHA & EVPFA for audit trends, results and next year's activities.
- Quality Assurance: professional readiness assessment of the internal auditing function by an external agency was completed this fiscal year. Results show 76 General Compliance, 22 Partial Compliance and zero Non Compliance.

In conclusion, UK Administration's alignment and structure objective of four years ago is upon us. IA's final report distribution, audit processes incorporating management's responses and audit services, has moved well beyond traditional techniques and into the realm of best practices. IA's work at UK is now relevant to the top twenty business plan. Through the efforts of UK Administration and the existing IA staff, a respectable value added product is being offered.

**Joseph Reed**  
**Senior Director Internal Audit**

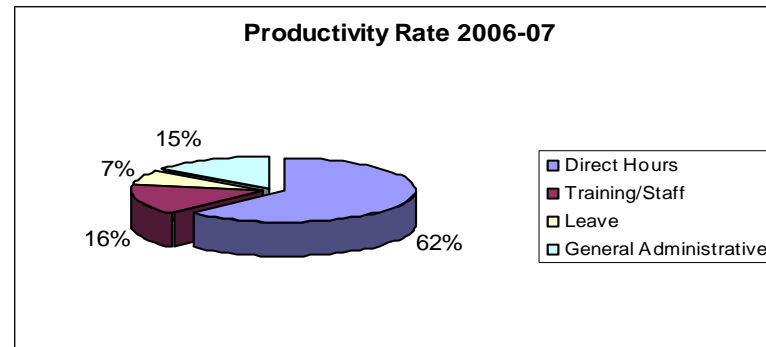
## PRODUCTIVITY

### (Efficiency)

*Metric #1: Departmental goal*

*Metric #1: 70% departmental goal (actual performance at 62%)*

Actual productivity was 62% versus a departmental goal of 70% this fiscal year. The 62% represents 5,975 hours for IA's six staff members dedicated to the audit function. Three of these members were new hires during the 2006 calendar year; thus impacting overall productivity with added training and orientation. The actual hours by percent for fiscal year 2007 are as shown:



Leave time is within the normal range, however training and general administrative hours are high. The general administrative hours have decreased year over year from 21% to 15% and training as mentioned in the preceding paragraph increased with new staff. The 62% productivity rate represents an achievement of 90% of goal, which is up from 86% of goal last year. The purpose of Metric #1 is to spend as much time as possible on IA's end product.

**PRODUCTIVITY (Efficiency)**

*Metric #2: Actual versus forecast*

Metric #2 efficiencies measure forecast hours being within an acceptable range (110%) of actual hours used for the reviews. The table shows forecasted hours against actual hours for the eighteen planned reviews completed this fiscal year.

*Planned Core Reviews*

The Core Review Process is an evaluation of control procedures designed to provide reasonable assurance that management objectives are being met. IA completed 12 planned reviews using 102% of the total forecasted hours. The reviews exceeding forecast are from new staff for first or second assignments, and one reassignment.

| Audit No.     | C01  | C02   | C03   | C04  | C05   | C06  | C07   | MC01  | MC02 | MC03 | MC04  | RE01  | <i>Core Review Total</i> |
|---------------|------|-------|-------|------|-------|------|-------|-------|------|------|-------|-------|--------------------------|
| Forecast Hrs. | 50   | 180   | 400   | 300  | 250   | 200  | 180   | 300   | 250  | 400  | 400   | 200   | <b>3110</b>              |
| Actual Hrs.   | 36.5 | 436.5 | 66.75 | 323  | 358.5 | 234  | 98.25 | 411.3 | 467  | 217  | 37.25 | 487.5 | <b>3173.55</b>           |
| % of Forecast | 73%  | 243%  | 17%   | 108% | 143%  | 117% | 55%   | 137%  | 187% | 54%  | 9%    | 244%  | <b>102%</b>              |

*Planned Compliance Reviews*

Transactions are tested to insure departmental compliance with laws, regulations, departmental policies and procedures. The results indicate the degree to which various functions of the University adhere to established criteria. Six compliance tests were completed in 2006-07, with satisfactory results. The results are reported in an abbreviated report format.

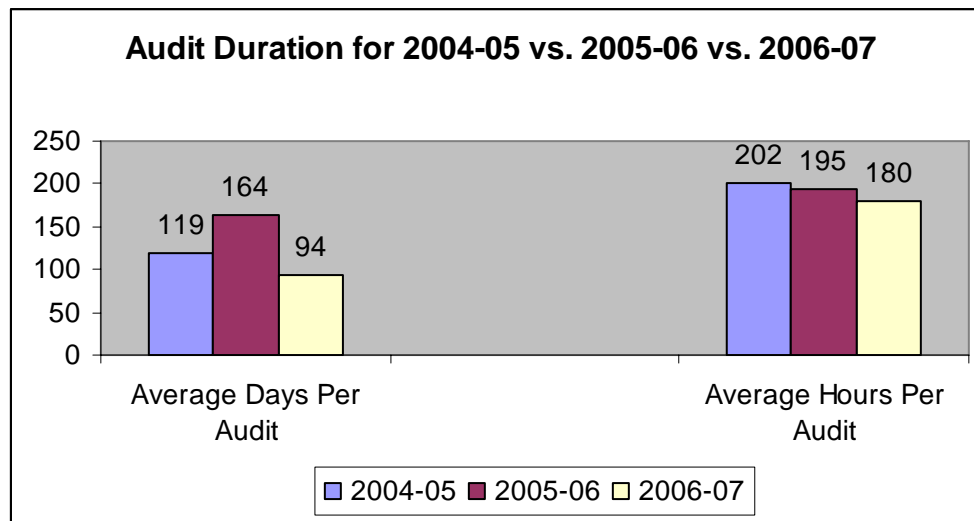
| Audit No.     | CST01 | CST02 | CST03 | CST04 | CST05  | CST06 | <i>Compliance Total</i> | <b>Total</b>   |
|---------------|-------|-------|-------|-------|--------|-------|-------------------------|----------------|
| Forecast Hrs. | 5     | 60    | 60    | 60    | 60     | 60    | <b>305</b>              | <b>3415</b>    |
| Actual Hrs.   | 6     | 50    | 137.5 | 145   | 205.75 | 95.75 | <b>640</b>              | <b>3813.55</b> |
| % of Forecast | 120%  | 83%   | 229%  | 241%  | 343%   | 160%  | <b>210%</b>             | <b>112%</b>    |

In conclusion, seven out of eighteen (39%) reviews were within performance expectations for hours forecast. The core review rate was 50% and the newly implemented compliance review rate was 17%. The purpose of Metric #2 is to appropriately forecast individual reviews into the overall work plan for resource allocation. The cumulative hours were 112% for all forecasted reviews.

**PRODUCTIVITY (Efficiency)**

*Metric #2: Actual versus forecast (duration)*

Although audit duration is not a metric, IA attempts to provide a quality product within a reasonable amount of time. The actual versus forecast metric is reviewed in conjunction with this measurement. The purpose is to verify that the end product is reported timely.



The average number of days to complete an audit decreased by 70 days from 164 days to 94 days. The average number of hours to complete a review decreased by 15 hours, going from 195 hours in 2005-06 to 180 hours in 2006-07. The incorporation of the auto audit software program, streamlined processes and added support staff all attributed to this improvement.

**PRODUCTIVITY (Effectiveness)**

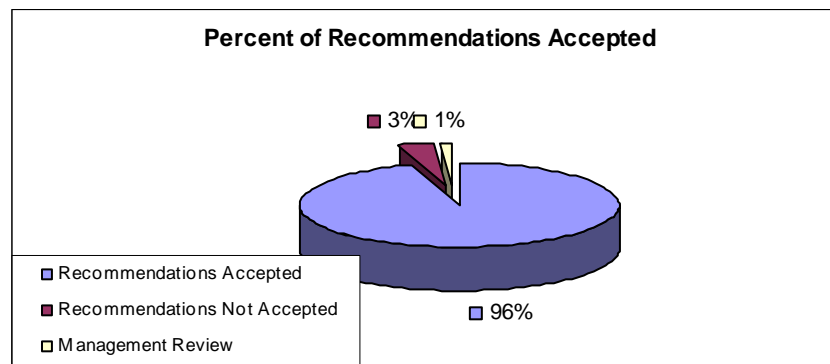
*Metric #3: Recommendations Accepted*

IA used 6.2% of its time or 597.75 hours in fiscal year 2007 to train professional staff. Training includes activities sponsored by the Institute of Internal Auditors, Central Kentucky Institute of Internal Auditors (CKIIA), Pryor Seminars Inc., and the University of Kentucky. Along with attendance at these events, IA staff is also actively involved in CKIIA as officers and committee members (UK had both the outgoing and incoming President). Actual hours of training for current staff are shown below:

| <b>Event</b>  | <b>Hours</b>  | <b>No. Employees Attending</b> |
|---|---------------|--------------------------------|
| Institute of Internal Auditor (IIA)                     | 82            | 4                              |
| Central Kentucky Institute of Internal Auditors (CKIIA) | 80            | 5                              |
| University of Kentucky (HR, IRIS, CBMI, IT)             | 189           | 5                              |
| Pryor Seminars  | 16            | 1                              |
| Other   | 230.75        | 5                              |
| <b>TOTAL</b>  | <b>597.75</b> |                                |

*Metric #3: Add value by providing root cause remedies (96%)*

Training is vital to our function as it keeps us abreast professionally and on the cutting edge of information and technology. Recommendations are accepted, not accepted or currently being reviewed by management.



IA does research industry standards and review some benchmarking data, if applicable prior to making recommendations. The percent recommendations in the chart represent a number of 35 accepted, 3 not accepted and 1 under management review.

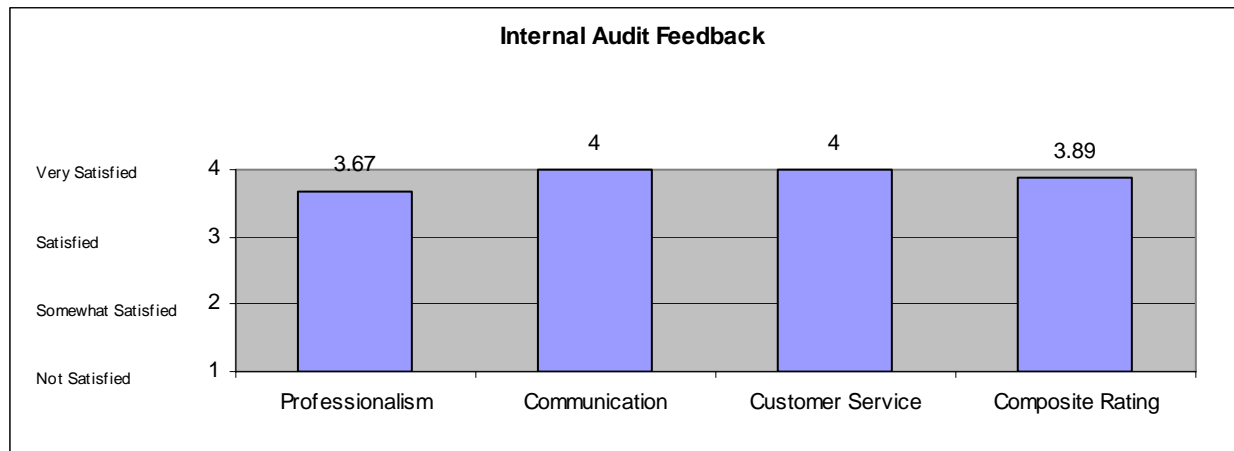
**FEEDBACK (Effectiveness)**

*Metric #4: Two-way Communication*

IA communicates with the Office of Legal Counsel, Human Resources, UK Police and appropriate management concerning investigations, planned reviews and/or requests. This fiscal year IA began year-end Executive Level report outs to the Office of the Provost, Office of the Executive Vice President for Finance and Administration, and Office of the Executive Vice President for Healthcare Affairs, to inform management of findings and trends within their area.

*Metric #4: Provide excellent customer service to our clients*

This chart represents written client feedback to IA.



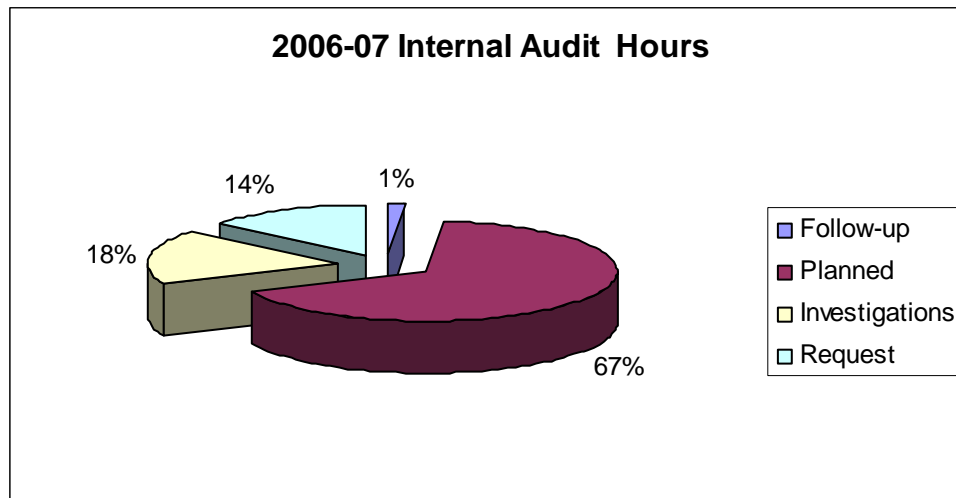
The category and composite results for fiscal year 2007 feedback is shown directly above. All scores range between not satisfied to very satisfied.

**PRODUCTIVITY (Efficiency and Effectiveness)**

*Metric #5: Work plan completion rate (100%)*

All 18 planned audit reviews approved by the Audit Subcommittee were completed; IA considers audits complete when a final draft has been submitted to the client for management response. IA works with clients allowing for appropriate response time during the review process.

The chart below represents the hour distribution percentage for the type of audit work performed. Assignments not included in the annual work plan come from management’s requests and investigations.



Thirty total reviews were completed in the 2006-07 fiscal year; 18 were planned, 4 were requested, 5 were investigations and 3 were follow-ups reviews. Approximately six thousand hours were used to complete these reviews. Audit requests and investigations represented 32% of IA’s direct hours; with the addition of the pillars IA expects this number to increase.

## University of Kentucky Internal Audit Department



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Joseph Reed

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