Chair Branscum called the meeting to order at 9:02 AM and welcomed everyone in attendance. Marc Mathews introduced Office of Treasurer staff present at the meeting.

The minutes of the June 16, 2008 meeting were reviewed and approved,

Marc Mathews introduced Mary McKinley, partner from BKD, UK’s external auditor and Chris Graff, BKD audit manager. Mr. Mathews commented on UK’s satisfaction with
BKD on this first year of the audit engagement. BKD delivered according to their proposal and generated good questions.

Ms. McKinley indicated that the audit report was issued 4 days early and they found UK staff cooperative. She reviewed the three delivered BKD reports:

1. Independent Accountants' Report on University of Kentucky Financial Statements for the year ended June 30, 2008;
2. Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards; and

Ms. McKinley reported that the University received an unqualified opinion and had no material internal control weaknesses. She reviewed the management letter, highlighting there were no proposed audit adjustments and several passed adjustments, which were brought to BKD’s attention by UK management and which were deemed immaterial.

The passed adjustments for unrecorded accounts payable were noted as an “other control deficiency” in the management letter. Ms. McKinley explained the accounts payable process at Chair Branscum’s request. Mr. Mathews also explained the UK process to monitor incoming invoices during the audit period to ensure each is accounted for in the appropriate period. The dollar threshold increases as time passes in the audit process since it is difficult to continually update the draft financial statements. Mira Ball inquired as to the nature of the late invoices; specifically were they being held in departments or a vendor issue. Mr. Mathews responded that it is a combination of both. Britt Brockman inquired if it would be feasible to provide some incentive to departments to ensure timely routing of invoices. Mr. Mathews responded that this suggestion would be explored.

A motion was made for acceptance of the BKD reports by member Dermontti Dawson; seconded by JoEtta Wickliffe and motion carried.

Joseph Reed reported that the Internal Audit 2007-2008 Annual Report will be issued following its presentation with all internal areas. He shared that the review covered the matrix of planning, audit duration, productivity, recommendations and client feedback. He reported the audit duration was 58-94 business days with audit hours of 122-240. Productivity rose from 62% in 2007 to 76% in 2008, much a result of no new staff in 2008 and streamlined processes. Internal audit recommendations were accepted 96%
by management. Internal audit received 25 client feedback forms out of 22 completed audits, scoring an average of 3.7 out of 4.0.

Chair Branscum asked as to the number of staff in Internal Audit. Mr. Reed responded he will be adding one auditor in January, which brings the number of professionals to seven. He also has been using students and finding them extremely beneficial.

Chair Branscum thanked Mr. Reed for the good work and inquired about the Hotline. Mr. Reed reported 64 calls for the fiscal year, with 35 considered general; 18 Human Resource; 10 external compliance and 1 billing. His office reviews statistics for trends and to develop future audit plans. Mira Ball asked about outcome of the calls forwarded to other individuals in the organization. Mr. Reed indicated many are found not to have merit and no further action is necessary.

Mira Ball asked when the affiliate reports will be received and when the formal Internal Audit report will be available. Mr. Mathews indicated the affiliate reports were at the printer’s and will be mailed in near future. Mr. Reed indicated his report should be available by late November. Chair Branscum indicated that he will review the Internal Audit Annual Report and will decide if audit subcommittee will need to meet prior to the scheduled March meeting date.

Mira Ball asked about length of the audit contract and Mr. Mathews reported it was for an initial four year period with an option to renew for four additional one-year renewal periods.

Being no further business, the meeting was adjourned at 9:34 am. The next meeting of the Audit Subcommittee will be held on March 10, 2009. At this meeting, the scope of the audit for June 30, 2009 will be discussed and the 2009 engagement letter will be reviewed.