MINUTES OF THE AUDIT SUBCOMMITTEE OF THE FINANCE COMMITTEE
University of Kentucky Board of Trustees
March 29, 2011 10:15 AM
18th Floor Patterson Office Tower, Board Room

Subcommittee Members Present
James W. Stuckert, Chairperson, Keith Gannon and Billy Joe Miles

Discussion Item
Mr. Stuckert introduced Mary McKinley, Partner, and Chris Graff, Manager, from BKD, LLP. Ms. McKinley presented the Pre-audit Report to the Audit Subcommittee and discussed the audit process for the fiscal year ending June 30, 2011. The scope of the audit remains essentially the same as in previous years and planning with University management has begun with pre-audit functions scheduled to start in May. Ms. McKinley drew attention to the interaction of BKD with Internal Audit and pointed out that each year an element of unpredictability is included in the audit. Mr. Stuckert asked for clarification and Ms. McKinley explained that they choose something to audit that management would not anticipate, such as accounts payable items of a small amount. Mr. Stuckert asked Ms. McKinley how BKD does the valuation of alternative investments. She agreed it was difficult and reviewed that process.

In response to a question by Mr. Gannon, the terms of the audit contract were reviewed. BKD has performed the University’s audit since 2008. The original contract was for four years with the option of four one-year extensions with the fee increasing each year. The University is not subject to the Sarbanes-Oxley law that requires partners to rotate off the audit after seven years, but it is considered best practice to follow that guideline.

Mr. Miles asked if the University should consider re-bidding the contract rather than extending in order to give another firm the chance to obtain the University’s business. Mr. Stuckert stated that the current charge is very inexpensive. Frank Butler, the Executive Vice President for Finance and Administration, said that not only was the audit fee well below the other bids, but the quality of service was better.

Approval of Minutes
The minutes of the October 12, 2010 Audit Subcommittee meeting were approved as presented.

ASCR 1
Angie Martin, Vice President for Financial Operations and Treasurer, requested that the Subcommittee approve a motion to allow Mr. Butler to negotiate terms for the extension of the contract with BKD, LLP for the Audit of the University of Kentucky’s Financial Statements through Fiscal Year 2011-12. Mr. Miles moved for approval. Mr. Gannon seconded, and the motion for approval unanimously carried.
Joe Reed, Senior Director of Internal Audit, reviewed the revisions to the Audit Subcommittee Charter that were made in response to Internal Audit’s Quality Assurance Review. Mr. Stuckert suggested that the wording on page 7, number 8, be revised to state “and/or” rather than just “or” and that on page 8, number 16, the term “management” be defined to make consistent with the rest of the charter. Mr. Reed agreed to make the changes and Mr. Gannon moved for approval. Mr. Miles seconded, and the motion for approval unanimously carried.

Mr. Reed then reviewed the proposed minor revisions to the Internal Audit Charter that were also made in response to Internal Audit’s Quality Assurance Review. Mr. Stuckert again asked for “management” to be defined which Mr. Reed agreed to do. Mr. Miles moved for approval. Mr. Gannon seconded, and the motion for approval unanimously carried.

Other Business
Mr. Stuckert asked for an update on progress made on last year’s Internal Audit goals. In addition to completing the revision of the charters, Internal Audit has hired an IT auditor, instituted a quarterly newsletter, continued to improve other communications and has begun including information systems in all audits. Mr. Reed works closely with both Campus and HealthCare Information Technology personnel.

Mr. Stuckert also asked what Mr. Reed does to improve “best practices” in Internal Audit. Mr. Reed responded that Internal Audit collaborates with other university organizations and also participates in the local chapter of the Institute of Internal Auditors which includes the private sector with the goal of being just as good as those in the private sector. A BKD forensic specialist is coming on April 19 to visit with Internal Audit. They have purchased Audit Command Language (ACL) to assist in their continuous auditing efforts. The staff has received three days training on ACL and are just beginning to put it into practice.

Mr. Stuckert said that he was very interested in this area because of the importance of the Internal Audit function to the University. He asked about turnover which has been very low in recent years. Mr. Reed responded that the low turnover has helped immensely in developing relationships within the University community. In response to Mr. Stuckert’s last question, Mr. Reed stated that he reports to Mr. Butler and meets regularly with the Provost, Mr. Butler and Dr. Karpf. Mr. Butler said that Mr. Reed also meets with individuals across the University to review audit findings.

Dr. Todd added that Mr. Reed has made tremendous changes in the internal audit function and that he was proud of the entire financial team. Mr. Stuckert agreed and stated that he wanted anyone, including the external auditors, to come to the committee if irregularities occurred.
There being no further business, the meeting was adjourned.

**Next Meeting**
The next meeting will be held Tuesday, October 25, 2011. At that time management will present the audited financial statements for the fiscal year ending June 30, 2011; the Subcommittee will meet with the external auditors regarding the conduct of the audit; and Internal Audit will present their FY2011-12 work plan and report on FY2010-11 activity.

Respectfully submitted,

Christine Donahoe