MINUTES OF THE AUDIT SUBCOMMITTEE OF THE FINANCE COMMITTEE
University of Kentucky Board of Trustees
October 25, 2011 8:00 AM
18th Floor Patterson Office Tower, Room C

Subcommittee Members Present
James W. Stuckert, Chair, William Britton, Keith Gannon, Bill Gatton, and Billy Joe Miles

The meeting started with a discussion with Mary McKinley and Chris Graff of BKD regarding the FY 2011 audit. In accordance with standard auditing procedures, University leadership was not present for the discussion.

Approval of Minutes
The minutes of the March 29, 2011 Audit Subcommittee meeting were approved as presented.

Discussion Items
Mr. Stuckert asked Joe Reed to present the Report of FY10-11 Internal Audit Activity. Mr. Reed reviewed the highlights and status of the various Internal Audit projects. Metrics indicate audit staff productivity exceeds the goal and the client satisfaction is high. The subcommittee also discussed the roles of Internal Audit (IA), Campus Information Technology, and HealthCare Information Technology. Mr. Reed noted that Campus IT, HealthCare IT and IA meet quarterly.

Mr. Britton asked who determined the subsequent year’s audit plan. Mr. Reed reviewed the process which includes a review by the Audit Subcommittee. In response to additional questions, Mr. Reed described Internal Audit’s responsibilities which are more process based, such as cash handling. The audits generally do not include recommendations regarding staffing levels or address duplication of effort among colleges. Internal Audit’s reports are sent to management, including Mr. Butler, Mr. Melgar, and Ronda Beck.

Mr. Stuckert said that to analyze staffing needs, he would like to see budgeting moved down in the organization to department chairs, creating profit and loss statements at the unit level. Ms. Martin described the new tuition-incentive funding program and how the Provost looks at the college profile report that gives details on productivity.

Ms. Martin also described the shared service center approach that many universities are implementing. The University is investigating such a concept on a smaller scale. The College of Pharmacy is creating a center to serve all of its departments. Mr. Britton asked when it would get to the point of merging services for colleges. Ms. Martin responded that we want to re pilot such a center concept but we need to be sure internal
controls are in place and management is adequately supported. Following a question by Mr. Britton about purchasing, there was a discussion about the lack of standardization with how units handle purchasing, payroll, and other administrative functions.

Ms. Martin described the Administrative Process Improvement (API) teams that are in the process of studying travel, payroll, and purchasing. The University created teams from colleges and central offices to analyze how many transactions we do per year, how they are dispersed among units, and how to improve the processes. The March meeting will include an agenda item to discuss metrics, goals, where we are now.

Mr. Stuckert asked Mr. Reed to continue with his report. For the coming year, IA will do unannounced cash handling audits as well as business and IT reviews, including research. Mr. Stuckert asked about unplanned activity hours. Mr. Stuckert observed that the report only included 1,700 hours of unplanned audit activity, or the equivalent of one person. Mr. Butler stated that audits are often more complicated than anticipated and unplanned audits consume a lot of time. Mr. Stuckert asked Mr. Reed to give an update on unplanned hours at the March meeting as IA may need another person.

Mr. Britton moved to approve the audit plan. Mr. Gannon seconded. The motion was approved.

**Action Item**
ASCRI1 authorizes the EVPFA to amend the current engagement letter with BKD for the audit of the balance sheet and compilation of the related statements for Coldstream Laboratories, Inc. (CLI). The CLI board had requested that the letter be changed to an agreed-upon-procedures engagement for an interim period to be determined. Mr. Britton moved to approve and Mr. Miles seconded. The motion was approved.

**Information Item**
The FY 2011-12 engagement letter with BKD was briefly discussed.

**Discussion Item**
Ms. Martin asked that the committee return to the external audit reports and discussion with BKD. Ms. McKinley introduced Mr. Graff who discussed the financial statements. Mr. Graff stated that BKD issued a clean opinion and it was a relatively calm year with no major changes. For the year, assets were up, liabilities were down, the endowment performed well and there was one new bond issue. He directed the subcommittee’s attention to Attachment A regarding internal controls over financial reporting. The audit revealed no significant deficiencies or material weaknesses. Mr. Graff also reviewed Attachment B, the management letter. It contains standard language and refers to the accounting estimates that are considered significant risk areas. BKD spends a lot of time on these estimates including allowances, self-insurance reserves, and alternative investment valuations. The bottom of page 3 is the audit adjustment section. Management passed on two immaterial adjustments that were proposed by BKD. The adjustments included unrecorded liabilities which were caused by timing issues and the
estimate for self-insurance reserves. Mr. Graff said that both adjustments were brought to BKD’s attention by management and did not result in a control deficiency.

The comment on current economic conditions on page 4 mirrors the disclosure in the financial statement. He concluded that it was a smooth audit.

Mr. Miles moved to approve and Mr. Britton seconded. The motion was approved.

Mr. Stuckert thanked Ms. McKinley, Mr. Graff, and Mr. Reed for their reports and presentations. He reiterated to Mr. Reed that he would like a report in March about how the unplanned audits are affecting staffing needs.

There being no further business, the meeting was adjourned.

**Next Meeting**
The next meeting will be Tuesday, March 27, 2012. At that time BKD, LLP will discuss the audit for the fiscal year ending June 30, 2012, and Internal Audit will present an update on FY 2011-12 activities, including unplanned audits and the effect on staffing. Ms. Martin will present a status report on the Administrative Process Improvement workgroups.

Respectfully submitted,

Christine Donahoe