MINUTES OF THE AUDIT SUBCOMMITTEE OF THE FINANCE COMMITTEE
University of Kentucky Board of Trustees
December 11, 2012 8:30 AM
18th Floor Patterson Office Tower, Room H

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

Approval of Minutes
The minutes of the March 27, 2012 and the October 14, 2012 Audit Subcommittee meetings were approved as presented.

Reports and Discussion Items
Mr. Bill Thro, UK Legal Counsel, reviewed the responsibilities of the Audit Subcommittee. It serves as a check on internal and external auditors by reviewing audit reports and asking hard questions of both auditors and individual administrators. The Audit Subcommittee is a mechanism for ensuring accountability and to be sure everything is working as it should. Inevitably in an organization of this size, there will be instances where we fall short, usually due to mistakes, not malice. The Subcommittee should ask questions about the systems to ensure controls are in place to make errors less likely. Mr. Stuckert asked about the whistleblower policy. Mr. Thro described the University’s systems for protecting whistleblowers in compliance with federal and state law. Methods of reporting include the compliance line that allows complaints to be made anonymously.

Mr. Joe Reed reviewed the attached presentation on the Internal Audit Process and gave an update of the FY 2012-13 Internal Audit Work Activity. Because of the resignation of a senior auditor, the planned assignments for this fiscal year have been reduced by approximately 900 hours. Internal Audit hopes to have two new auditors, including one for IT, on board this spring and fully functional by the end of the fiscal year. Mr. Stuckert asked about the College of Engineering audit that has significantly exceeded the budgeted hours. Mr. Reed explained that was not an indication anything was wrong, but that the audit had turned out to be more difficult than expected because of the multitude of centers, departments, and systems. The audit is being done as part of the plan to do transitional audits when a new dean is hired.

Next Meeting
Tuesday, January 29, 2013
- Internal Audit update on FY 2012-13 activity

Respectfully submitted,

Christine Donahoe
Support UK in its pursuit of excellence by providing advisory and assurance guidance (p4) to champion reasonable assurance (p5) regarding the achievement of management objectives (p3).
Who We Are…

- We are an independent and objective function
- We have a dual reporting relationship to UK Administration and Audit Subcommittee
- We are part of Corporate Governance
- We are proficient professionals who strive to be of solid character with high morals and integrity
- We are transparent
What We Do…

- We provide reasonable assurance versus absolute assurance
- We perform activities efficiently and effectively
- We share and offer counsel
- We perform our function utilizing a systematic and disciplined approach
- We evaluate risk and communicate mitigation strategies
Management Objectives

Reporting
- Financial Data Integrity

Operations
- Meeting Established Criteria

Information Systems and Security
- Information Confidentiality, Integrity & Availability

Compliance
- Regulatory Adherence

Strategic
- Alliance, Guidance and Instruction
Guidance

7 Governing Documents

University Regulations
- Audit Subcommittee Charter (1)
- UK Code of Conduct & Ethical Principles (2)

Professional Standards
- UKIA Charter (3)
- IIA Code of Ethics (4)
- Auditor Independence (5)

UKIA Expectations
- Responsibility Agreement (6)
- Professional Summary (7)

Management and Other Considerations
- Long-term or Strategic Plans
- Leadership Expectations
- Managerial Changes
- Partnerships and Collaborations
- Current Culture and Environment
- Industry Practices
- Immediate Priority
Providing Reasonable Assurance…

What’s Important?  Which Service?

Audit Selection Process:

Identification (know your organization)
- Enterprise Divisions/Dept/Unit
- Process/Activity/Procedure

Assessment Process
- Risk Factors
- Sub-criteria for Risk Factors

Audit Prioritization
- High, Medium and Low Risk
- Enterprise Audit Coverage

Resource Allocation
- Skill Set Determines Final Work
- Co-sourcing

Audit Approach:
1. Inquiries/Investigations
2. Continuous Auditing
3. Comprehensive Reviews
4. Consultations
5. Information Technology
6. Compliance Reviews
7. Process Reviews
8. Follow-up Reviews
Report Content

- Title Page
- Table of Contents
- Abbreviations
- Executive Summary
- Scope
- Observation/Investigation/Audit Summary
- Observations/Findings
- Recommendations
- Management Response
Snapshot of Audit Report Content

Executive Summary
- Why the unit/process was selected for review (e.g., Administration request, part of UKIA approved work plan, inquiry)
- Brief description of unit/process
- Summary of UKIA observations (i.e., risks found in the unit/process)
- Summary of how management has chosen to address the risks identified in the UKIA observations

Observations/Findings
- Observation summarizes an existing condition of concern
- Finding is a specific identified risk associated with a particular observation

Management Response
- How management plans to share, avoid, reduce or accept each identified risk. All responses are incorporated into Final Audit Report.
Executive Summary
At the request of the (Client), UK Internal Audit (UKIA) performed an application and security controls review of the (unnamed) Application. The (Client) uses (unnamed) Application to record a variety of important information. Since this application supports users throughout the University, UKIA considers it to be a Critical Enterprise Application. (Various types of information) are coordinated with appropriate UK Departments and uploaded into SAP. UKIA reviewed the (unnamed) Application and associated controls to ensure that the Application meets business objectives and that data contained therein is secure, accurate and available. The review revealed adequate security and practices for the following: 1) Completion of access forms for all potential (unnamed) Application users, 2) Established process for routine maintenance, 3) Adequate restrictions and administrative rights management.

In addition to the positive system attributes revealed during this review, some improvement opportunities exist in the areas of: 1) Governance, 2) Database controls, 3) Server security, 4) Contingency planning procedures.

This review was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors (IIA). The (Client) management responses to improvement opportunities include vendor collaboration, exception reporting creation, and procedural revision. Management resolution also includes the development of a Business Continuity Plan. UKIA has targeted February, 2013, to assess the actions of Management.

Observation/Finding
2. Application and Database Controls
UKIA has identified opportunities to implement controls that will improve reliability, integrity and security of the (unnamed) Application.

2.4 Logical Security
UKIA observation indicated that while access forms are required and maintained for (unnamed) Application users, there is no procedure in place to maintain and review the access forms and authorization in a standardized manner. The following exceptions were noted: a) The access form does not include the business purpose for requesting access, b) There is no consistent procedure for monitoring the access list, c) Users in the access list are not uniquely identified. Some users have duplicate access to the (unnamed) Application database, d) There is an informal process in place for reinstating and terminating employee access.

Management Response
2.4 Logical Security
Management has implemented a procedure to monitor and review (unnamed) Application access. An updated access form is being reviewed by Management now. Multiple access ids are restricted to select members of the Information Services department for duplicate record research. Management is looking for better ways to track when UK employees who are (unnamed) Application users change or terminate their employment.
Executive Summary
IA’s management review of (Unit) was scheduled as part of the annual adjusted-audit plan and approved by the Audit Subcommittee for the University. The audit focused on the assessment of internal controls designed and implemented by (Unit) to provide reasonable assurance regarding the reliability and integrity of financial reporting on operations, the safeguarding of assets, and compliance activities.

Audit results, expressed herein as ‘Observations’, indicate that the following requires management’s attention:

- Business Processes
- Information Systems

IA’s standard review of controls requires nominal test sampling, unless the audit process reveals control weaknesses that prompt IA to increase testing to levels that will provide sufficient evidence necessary to satisfy audit objectives. Management has actively participated in the review process and agreed with the findings. Recommendations for improvement and associated management responses are provided within this report.

Observation/Finding
Inappropriate review and approval: Clearly identify and articulate signing authorities that reflect the reporting and accountability relationships at (Unit).

Management Response
Signing authorities were identified and articulated with all staff members. Written documentation was required from all directors if Procard use was authorized by their staff support person. Individual directors met with the Associate and Executive Directors to review the procedures for completing/approving purchase orders, travel requests, DAV’s, etceteras for their initiatives and were reminded that all paperwork must be signed off on by their immediate supervisor (either the Associate or Executive Directors).
### UKIA Fiscal Year 2013 Work Plan Revision
**As of December 2012**

#### Total Assignments
<table>
<thead>
<tr>
<th>Description</th>
<th>Total Assignments</th>
<th>Hours Forecast</th>
<th>Revised Forecast</th>
<th>Actual Hours</th>
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<td>700</td>
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#### Business/Operations Audits
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<th>Revised Forecast</th>
<th>Actual Hours</th>
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#### Total Planned Assignments and Hrs Forecast

**51**  **11,660**  **10,760**  **4,843**  *Revision due to Senior Auditor departure*

#### Infrastructure

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<td>BKD Liaison, Research, Seminars, etc.</td>
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#### Unplanned Audits

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<th>Actual Hours</th>
<th>Description of Audit Service</th>
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<td>TBD</td>
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<td>Unplanned Reviews (3 year average @ 2,500 hours)</td>
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*Revision due to Senior Auditor departure*