MINUTES OF THE AUDIT SUBCOMMITTEE OF THE FINANCE COMMITTEE
University of Kentucky Board of Trustees
March 27, 2012 10:30 AM
18th Floor Patterson Office Tower, Room H

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

Approval of Minutes
The minutes of the October 25, 2011 Audit Subcommittee meeting were approved as presented.

Discussion Items
Mary McKinley, BKD Partner reviewed the Pre-Audit Report to the Audit Subcommittee. The standard report is addressed to those charged with governance and outlines the audit plan for this year. The plan is consistent with those in the past. BKD conducted preliminary planning meetings with management of the University before preparing this report. The audit should be completed by October 1, well in advance of the October 23 Board meeting.

There are no significant new accounting pronouncements this year. Over the last several months, BKD has discussed with management the proposed new dormitory transaction and the structure of and accounting for this transaction. Standard planning audit inquiry meetings with management are scheduled, including a meeting with Mr. Stuckert this morning.

Mr. Stuckert discussed his meeting this morning with Ms. McKinley. He pointed out that the audit does not relieve management or the audit subcommittee of their responsibilities. All need to be observant of what is presented to them and make inquiries if there are questions. He and Ms. McKinley discussed internal controls, which BKD determined are adequate, five risk areas and the audit approach. Mr. Stuckert asked Ms. McKinley to comment on University personnel and she stated that they were “top-notch, astute, aware of new developments and generally impressed with the team”. Mr. Stuckert thanked Angie Martin and Joe Reed for their leadership and for their teams.

Mr. Britton asked if the decentralization of the University causes significant problems for BKD. Ms. McKinley replied that decentralization is common in larger universities and that is does pose a greater risk. BKD takes it into consideration when developing internal control assessments and audit plans.

Mr. Stuckert asked Ms. McKinley to discuss BKD’s change in the audit team. Chris Graff, a manager on the UK audit for several years, recently left the firm. Ms. McKinley stated that others are assuming more responsibilities plus a manager from the University
of Louisville team will be assisting with certain aspects of the audit. UK should not see any difference.

Mr. Stuckert asked Joe Reed to present his report on the audit work plan. Mr. Reed reviewed the status of the various categories of audits and the hours spent on each assignment. There have been 17 unplanned activities, which take resources from the planned activities. In response to a question involving auditing colleges, Mr. Reed explained that academic audits can include financial, information technology, compliance, operational and management activities. The completed audits are sent to the client and a standard distribution list, which includes the audit subcommittee chair, independent audit partner and UK executive management.

Mr. Gannon asked about the 2013 audit plan and the process of developing the plan. Mr. Reed described the audit universe and the scoring mechanism and criteria used to prioritize the work.

Mr. Gannon asked if Internal Audit looked at organizational and management efficiency. Mr. Reed explained that Internal Audit reviews the organizational structure, the unit’s strategic plan alignment with University objectives, regulations applicable to that unit or division, and financial data. They verify that the actual practices and processes follow the departmental policies and documented procedures.

Mr. Stuckert and President Capilouto discussed briefly the financial model that Dr. Tim Tracy will present at the full board meeting that will move the University toward a different budgeting model.

Mr. Gannon asked if athletics would be rolled up into the audit plan. They are included in the audit universe but no special audits or reviews have been undertaken in the past two years. Mr. Reed agreed to include athletics in next year’s plan.

Mr. Stuckert discussed the limited resources available and the benchmarking data on internal audit staffing. In the last few years, information technology staffing has increased. Mr. Reed said that process audits such as Payroll and Purchasing touch all units, including athletics. He also mentioned that Internal Audit plans to increase the number of process audits in FY 2012-13.

Ronda Beck, Controller, presented for information the intent of university management to extend the contract with BKD for the FY 2012-2013 fiscal year audit. The initial contract was for four years with four one-year extensions and this will be the sixth year. While Sarbanes-Oxley, NACUBO, and the State Auditor do not require a change in audit firms, they recommend that the independent auditing firm’s assigned partner(s) should be changed at least every seven years.
The revision of the Audit Subcommittee Charter that was discussed at the October 2011 meeting was presented for approval. Mr. Britton moved for approval. Mr. Gatton seconded, and the motion unanimously carried.

The revision of the Internal Audit charter, which was also discussed at the October 2011 meeting, was presented for approval. Mr. Gatton asked about multi-year comparisons and benchmarking with other universities. Ms. Martin reviewed the internal processes for monitoring the budget. President Capilouto talked briefly about the differences between higher education and businesses. It is important to have an enduring set of principles that guide economic decisions. Mr. Gatton moved for approval. Mr. Gannon seconded, and the motion for approval unanimously carried.

Ms. Martin discussed the status of Administrative Process Improvements. Three teams were formed in March 2011 to address travel, purchasing and payroll, which were the top three areas mentioned by the deans. The travel management module in SAP, the enterprise reporting system, will be implemented to address the primary travel concern of shortening time for reimbursement; SAP will also be used to address purchasing concerns. Paper payroll time sheets will be replaced by electronic or direct time entry into SAP by bi-weekly employees. Currently, there is a lack of standardization in most processes.

Three other groups will also be formed to develop improvements including financial reporting and the salary recommendation form. SAP will no longer support the current budget system beginning in the future so one group is evaluating various replacement systems. Mr. Stuckert asked that Ms. Martin provide an update at a future meeting.

There being no further business, the meeting was adjourned.

The next meeting will be Tuesday, October 23, 2012. At that time management will present the audited financial statements for the fiscal year ending June 30, 2012; the Subcommittee will meet with the external auditors regarding the conduct of the audit; and Internal Audit will present their FY 2012-13 work plan and report on FY 2011-12 activity.

Respectfully submitted,

Christine Donahoe