MINUTES OF THE AUDIT SUBCOMMITTEE OF THE FINANCE COMMITTEE
University of Kentucky Board of Trustees
October 14, 2012 10:00 AM
18th Floor Patterson Office Tower, Board Room

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

The meeting started with a discussion with Mary McKinley, BKD, regarding the FY 2012 audit. In accordance with standard auditing procedures, University staff was not present for the discussion.

Reports and Discussion Items
Mary McKinley presented highlights of the 2012 audited financial statements. There was a clean, unqualified opinion again this year. The statements were very comparable to the prior year with just a few fluctuations. Ms. McKinley referred the committee members to the Management Discussion and Analysis for explanations of those changes. The Statement of Net Assets (page 15) indicates a very strong financial position. The Statement of Revenues, Expenses and Changes in Net Assets shows a smaller increase in net assets this year, primarily due to the decline in investment income. Mr. Stuckert pointed out that this was a result of the mark-to-market fluctuation, not a realized loss. The footnotes are also very similar to the prior year. Mr. Stuckert moved to accept the financial statements. Second by Mr. Gannon. Approved.

Ms. McKinley then referred the committee to the Single Audit Report (page 27) that shows total expenditures of $477 million. A clean, unqualified opinion on internal control over financial reporting is presented on pages 32 and 33. Pages 34 and 35 provide an opinion on compliance with major programs. This year there is a qualified opinion because of some small compliance items– four incidents out of 25 – totaling $1,350. BKD is required to report regardless of size pursuant to compliance guidelines. Angie Martin informed the committee that Student Financial Aid has put a corrective action plan in place. In the opinion of Ms. McKinley, the ramifications of the qualified opinion to the University will not be significant. Per auditing guidelines, BKD will test next year for similar errors. Mr. Gannon moved to accept the report. Second by Mr. Stuckert. Approved.

Ms. McKinley then reviewed the Management Letter, which is the required communication to the Audit Subcommittee. She pointed out the bullets related to Proposed Audit Adjustments on page 4 and the Summary of Adjustments Not Reported on page 23. The table on page 24 illustrates that the impact of these adjustments was not material to the financial statements. Mr. Stuckert moved to accept the Management Letter. Second by Mr. Miles. Approved.

At the request of the chair, T. Lynn Williamson, Office of Legal Counsel, reviewed the Audit Subcommittee’s responsibilities. Per the Governing Regulations, the Subcommittee appoints the external auditors, receives and reviews the audited financial report, and makes recommendations to the Finance Committee regarding the acceptance of those reports. The Charter provides a more detailed list of responsibilities, including receiving reports from Internal Audit and
ensuring appropriate standards are in place at the University to prevent fraud. Mr. Williamson also reviewed the Code of Ethics and Conflict of Interest policies and the reporting relationship of Internal Audit to the Subcommittee. He will provide a written summary of the duties and the Charter to the members of the Subcommittee.

Mr. Britton suggested that Internal Audit provide copies of internal audit reports to the committee and that the committee meet more frequently than twice a year to review those reports. Neither of these recommendations were acted upon at this time.

Joe Reed then gave the report of Internal Audit (IA) activity for FY 2012, including the Approved Work Plan, Unplanned Reviews, Audit Coverage by Enterprise Division and Metrics. IA completed only eight of the 17 planned reviews due to the number of unplanned reviews and the loss of three experienced auditors. Mr. Reed reviewed the FY 2013 work plan for the University, including the specific work plan developed for Athletics that covers the next three years.

There was a short discussion of the staffing level of Internal Audit. The subcommittee members indicated that they would like to see the size of staff increased as seven internal auditors doesn’t seem sufficient for an institution of UK’s size. However, they do recognize the budgetary constraints. Mr. Stuckert moved to accept the FY 2013 work plan. Second by Mr. Gannon. Approved.

**Action Item**

ASCR 1 authorizes the Vice President of Financial Operations and Treasurer to execute the Engagement Letter with BKD for the audit of the financial statements for FY 2013. Mr. Britton asked Ms. Martin to explain the changes made as a result of the dissolution of the University of Kentucky Athletic Association. She informed the subcommittee that the UK Intercollegiate Athletics Department will be audited and basic financial statements prepared, just as they are for the UK Healthcare Hospital System organizational unit. Unlike the current audit, future audits will include all financial data of the department. Mr. Gannon moved to approve ASCR 1. Second by Mr. Stuckert. Approved.

There being no further business, the meeting was adjourned.

**Next Meeting**

The next meeting is tentatively scheduled on Tuesday, March 19, 2013. At that time BKD, LLP will discuss the audit for the fiscal year ending June 30, 2013 and Internal Audit will present their FY 2013-14 work plan and report on FY 2012-13 activity.

Respectfully submitted,

Christine Donahoe