SUBCOMMITTEE MEMBERS PRESENT
William Britton, Chair, Keith Gannon, Bill Gatton, Billy Joe Miles and James W. Stuckert

APPROVAL OF MINUTES
The minutes of the December 11, 2012 Audit Subcommittee meeting were approved as presented.

REPORTS AND DISCUSSION ITEMS
I. FY2012-13 Internal Audit Update

Mr. Joe Reed, Senior Director Internal Audit, reviewed the attached presentation illustrating the midyear status of the FY 2012-13 Internal Audit Activity. Staff turnover has affected the duration of the audits. Two new auditors, one for IT and one senior business, should be on board by this spring. The reported unplanned activities were mostly for consultations. Internal Audit has not been able to do as many this year because of the temporary reduction in staff.

Hours of audit coverage by enterprise division are primarily spent on the academic area with approximately 3,200 of the 3,715 hours spent on the Colleges of Engineering, Fine Arts and Agriculture with Engineering being the most time-consuming because of complexity and size. Mr. Reed pointed out that the majority of the Administration hours were spent on Athletics. Productivity is at 83% (metric is 75%), indicating IA is doing more with less people; however the reduction in staffing has hindered work plan completion. The Audit Command Language firm will be hired this spring to assist with scripting as IA is down one IT auditor and has not achieved the metric for hours devoted to infrastructure improvements.

The metric for work plan completion rate has also not been achieved. Mr. Stuckert asked when IA expected to complete the remaining 13 audits. The target is the end of this fiscal year but that is an ambitious goal. Priorities may be adjusted. All audits in process at year end will roll over and others will be put back into the risk assessment process and reevaluated. In response to a question from Mr. Stuckert, Mr. Reed gave an overview of the risk assessment process. Center for Rural Health is mandated by KRS and Athletics is now on a cycle. The others are prioritized by IA management and senior leadership of the university.

Mr. Gannon asked if it would be better to plan on a quarterly rather than a yearly basis to ensure that all planned audits are completed. Mr. Britton described this year as an anomaly because of the staffing issues and pointed out that IA is somewhat of a “firefighter.” Urgent concerns will cause them to drop what they are doing. Inquiries and investigations are time consuming and may cause a re-prioritization. Mr. Reed gave an example of a transition audit as one that might not carry forward to the next cycle because the situation may not exist in the next fiscal year.
Mr. Miles asked about the delay in hiring and Mr. Reed explained that it usually takes four to nine months to hire an auditor. In a follow-up to Mr. Miles comment, Mr. Gannon stated his belief that Internal Audit is an important function and it bothers him that it isn’t staffed sufficiently.

II. Revision Schedule for Audit Subcommittee and Internal Audit Charters

Mr. Britton reviewed a proposed schedule to revise the charters. Ms. Angie Martin or Mr. Reed will email the current charters to the Subcommittee members for their review and suggested changes. If the Board of Trustees approves proposed changes to the Governing Regulations, the Subcommittee will revise the charters to be in alignment.

Discussion Item

Ms. Martin notified the Subcommittee that the engagement letter with BKD for the FY2013 audit has been finalized. The only change from the previous year is the structure of the Athletics audit as discussed previously.

Next Meeting
Tuesday, March 19, 2013
• Communications regarding the audit of the financial statements for the year ending June 30, 2013
• Internal Audit update on FY 2012-13 activity
• Audit Subcommittee Charter revision

Respectfully submitted,

Christine Donahoe