

**MINUTES OF THE AUDIT AND COMPLIANCE SUBCOMMITTEE
OF THE FINANCE COMMITTEE
University of Kentucky Board of Trustees
September 10, 2013, 10:00 AM
Suite A, 18th Floor Patterson Office Tower**

Subcommittee Members Present

William Britton, Chair, Bill Gatton and James W. Stuckert

Approval of Minutes

The minutes of the June 11, 2013 Audit Subcommittee meeting were approved as presented.

Action Item

ACSR 1 Proposed Revisions to Audit and Compliance Subcommittee Charter (Attachment)

Mr. Eric Monday, Executive Vice President of Finance and Administration (EVPFA), reported the purpose of the Charter revision was to be consistent with the changes to the Governing Regulations. He noted that the revision was also an opportunity to reflect current industry practices.

Mr. Gatton moved to approve ACSR1. Seconded by Mr. Stuckert. Approved.

Reports and Discussion Items

UK Internal Audit (UKIA) Final FY 2013 Report consisted of (1) Annual Report review, (2) Cash Handling Report and (3) Comply Line Summary.

(1) FY 2013 Annual Report review (Annual Report Attachment)

Mr. Joe Reed reviewed the attached UKIA FY 2013 Annual Report. He highlighted items from the report sections:

Services Performed/Infrastructure

The UKIA services performed in FY 2013 included Comprehensive, Information Technology and Consultation reviews. Mr. Reed highlighted the section that explains how UKIA segments the University into six enterprise divisions to gauge adequate audit coverage. He mentioned the 21-step audit process utilized by UKIA which emphasizes planning and communication; 16 of the 21-steps consist of planning and reporting. Infrastructure initiatives include implementation of the new data-mining software, offering a student internship program and collaborating with faculty to provide practical experience through projects for academic credit. Chair Britton emphasized the importance of engaging students in internship programs.

Dashboard Results

Mr. Reed reviewed the dashboard used by UKIA to measure and report results. UKIA conducted eight unannounced cash audits and seven additional cash audits; these additional audits were conducted as part of other reviews. Business audits included eight comprehensive, five follow-up and two assessment reviews. There were 11 Information Technology audits performed and two Continuous Auditing reviews engaged in FY 2013. He noted that these reviews involve data-mining as a means of fraud prevention and detection. UKIA identifies potential exceptions using the data-mining software and then examines supporting documentation at the unit level. Unplanned audit activity involved 16 projects and was approximately 2,000 hours. Mr. Reed reviewed the status of the UKIA Metrics, noting that four of the six metrics were achieved for FY 2013.

(2) FY 2013 Cash Handling Report (Handout)

Mr. Reed highlighted the pie charts on page 1 that showed the results of the eight unannounced cash audits and their respective follow-up reviews. UKIA uses seven elements to evaluate a unit's cash handling practices to the point of sale; accounting for cash upon receipt and safeguarding cash were two areas of concern. Announced cash audits conducted as part of a comprehensive or follow-up review were summarized on page 2. Chair Britton asked about the potential number of cash handling audits that could be performed for the University. In the discussion, it was estimated that there are over 200 actual cash operations and also an additional number of imprest checking accounts associated with the compensation of research subjects.

(3) FY 2013 Comply Line Summary (Handout)

Mr. Reed mentioned the May 2013 message sent by President Capilouto regarding the various University reporting mechanisms for inappropriate activity including the Comply Line. UKIA summarized the FY 2013 Comply Line calls by Enterprise Division for trending, performing inquiries and planning future work. Mr. Reed mentioned that the number of Comply Line calls continues to increase each year; it has doubled over each of the last three fiscal years.

Other Discussion

Other business included the topic of a recent fraud occurrence in higher education. Discussion ensued regarding the University's current internal controls and proactive plans. These plans include collaboration between the Office of the Treasurer and Internal Audit to enhance fraud prevention and detection.

There being no further business, the meeting was adjourned.

Next Meeting

Tuesday, December 17, 2013

- BKD FY 2013 Year-end Review
- Internal Audit Charter Revision

Respectfully submitted,

Catherine Miller

ACSR 1

Office of the President
September 10, 2013

Members, Audit and Compliance Subcommittee:

PROPOSED REVISIONS TO AUDIT AND COMPLIANCE SUBCOMMITTEE CHARTER

Recommendation: that the revisions to the Charter of the Audit and Compliance Subcommittee of the Finance Committee be approved effective September 10, 2013.

Background: The Audit Subcommittee approved the initial Charter on September 21, 2004. The Subcommittee revised the charter on March 27, 2012 in response to a recommendation set forth in the Quality Assessment Review of the Office of Internal Audit dated October 2009.

The proposed revisions to the Audit and Compliance Subcommittee Charter are in response to the University Governing Regulation, Part II amendment approved by the Board of Trustees and effective on July 1, 2013.

Due to the restructuring of the charter, clean copies of the current and recommended charters as well as a comparison of the changes are attached.

Action taken: Approved Disapproved Other_____

University of Kentucky
Charter of the Audit Subcommittee of the Finance Committee of the Board
of Trustees

Purpose

The Audit Subcommittee is to assist the Board of Trustees and its Finance Committee in fulfilling its fiduciary responsibility to oversee the University's financial reporting practices and the independent audit of those processes. In carrying out its responsibilities, the Audit Subcommittee does not provide expert or special assurance regarding the University's financial statements. Specifically, the University's senior administrators will report to the Audit Subcommittee on the University's:

- financial statements;
- system of internal controls; and
- compliance with applicable laws, regulations and University policy.

Structure

The Chair of the Finance Committee of the University of Kentucky Board of Trustees shall serve as Chair of the Audit Subcommittee. The Audit Subcommittee shall be composed of a minimum of three Finance Committee members and fewer than six total members from the Board of Trustees. Audit Subcommittee members will be nominated and appointed through the current Board of Trustees committee formation process.

Meetings

The Audit Subcommittee will meet at least twice per year with authority to convene additional meetings, as circumstances require. All members are expected to attend each meeting. As necessary or desirable, the Chair may request that the Executive Vice President for Finance and Administration, the Vice President for Financial Operations and Treasurer, the Controller, the Senior Director of Internal Audit, other senior administrators and/or representatives of the independent auditors' firm be present at a meeting of the Audit Subcommittee. For a quorum to exist, two out of three members should be present. If more than three members exist, a quorum will be fifty percent plus one.

Functions and Responsibilities

The Audit Subcommittee is to:

Financial Reporting

1. Review with University's senior administrators and the independent auditors, upon completion of the audit, financial results for the year.
2. Review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements and their impact on the financial statements.

Independent Auditors

3. Serve as the authority to which the independent auditors report. The Audit Subcommittee of the Board of Trustees' Finance Committee has the ultimate authority and responsibility to appoint, compensate, retain, oversee and, where appropriate, replace the independent auditors.
4. Review, prior to the start of the annual audit, the scope and general extent of the independent auditors' planned examination, including the engagement letter. The auditors' fees are to be arranged with the Executive Vice President for Finance and Administration and summarized annually for the Audit Subcommittee's review.
5. Review at least annually a report describing the independent auditors' firm's internal quality-control procedures and any material issues raised by the latest internal quality-control or peer review of the firm.
6. Review with the Executive Vice President for Finance and Administration and the independent auditors the extent of non-audit services planned to be provided by the independent auditors in relation to the objectivity and independence needed in the audit. All non-audit related services, other than related accounting or tax research and/or tax return preparation, to be performed by the independent auditors, and related fees, are to be reviewed and approved by the Audit Subcommittee prior to the independent auditors beginning work on such services.
7. Review and confirm the independence of the independent auditors by obtaining statements from the auditors on relationships between the auditors and the University.
8. Meet with University's senior administrators and/or independent auditors as necessary.

Internal Auditors

9. Review and approve the Internal Audit Charter.
10. Review with University's senior administrators and the Senior Director of Internal Audit the objectivity and resources of the Internal Audit Department.
11. Review, with the Senior Director of Internal Audit, the overall effectiveness of the internal audit function, including compliance with The Institute of Internal Auditors' *International Professional Practices Framework for Internal Auditing consisting of the Definition of Internal Auditing, Code of Ethics and the Standards*.
12. Concur in the appointment, replacement, reassignment, or dismissal of the Senior Director of Internal Audit.
13. Review and approve the Internal Audit Plan for the current year and all major changes to the Plan.

14. Review, with the Senior Director of Internal Audit, the results of internal audit activities and progress with respect to the Internal Audit Plan.

Internal Controls

15. Review with the Executive Vice President for Finance and Administration and the independent auditors:
 - The effectiveness of the University's internal controls, including the status and adequacy of information systems and other data and security, the overall control environment, and accounting and financial controls.
 - Any related significant findings and recommendations of the independent auditors, together with management's response thereto, including the timetable for implementation of recommendations to change internal controls.

Compliance

16. Obtain regular updates from the Senior Director of Internal Audit regarding compliance matters and adherence to University policy.

University of Kentucky
Charter of the Audit and Compliance Subcommittee of the Finance Committee of the Board of Trustees

Purpose

The Audit and Compliance Subcommittee provides oversight of the quality and integrity of the University's auditing functions and external financial reporting. The Audit and Compliance Subcommittee does not provide expert or special assurance regarding the University's financial statements.

In accordance with University Governing Regulation, Part II, E-2-c the Audit and Compliance Subcommittee:

- a) Reviews recommendations and appoints the external auditors
- b) Receives and reviews the annual reports from the external auditors and makes recommendations to the Finance Committee concerning these reports; and
- c) Receives and reviews reports from the Senior Director of Internal Audit on the University's system of internal controls and compliance with applicable laws, regulations, and University policy, and reports on such to the Finance Committee.

Authority

The Audit and Compliance Subcommittee's purpose is carried out with functional authority over the external and internal auditors and the authority to initiate investigations into any matters within its scope of responsibility.

Structure

The Audit and Compliance Subcommittee membership shall be composed of a minimum of three and no more than seven members from the Board of Trustees utilizing the standard nomination and appointment process for committee formation and Chair selection. Members should be independent of management and without business relationships that could interfere with the exercise of good judgment, disclosing any conflicts. Any dispute regarding independence should be reviewed by the Finance Committee of the Board of Trustees for final resolution. At least one member of the Audit and Compliance Subcommittee should have accounting or financial expertise.

Meetings

The Audit and Compliance Subcommittee will meet at least twice per year with authority to convene additional meetings. All members are expected to attend each meeting; a quorum will be fifty percent plus one. The Audit and Compliance Subcommittee may invite members of management, external or internal auditors or others to attend meetings and provide pertinent information.

Audit and Compliance Subcommittee Responsibilities

General Responsibilities

- Review, approve and periodically revise, if necessary, this Charter of the Audit and Compliance Subcommittee of the Finance Committee of the Board of Trustees.
- Review any significant findings and recommendations of the external or internal auditors, together with management's response. Report such findings and recommendations to the Finance Committee if not resolved in a timely manner.

Annual Financial Reporting Responsibilities

- Review the planned audit scope of the financial reports with the external auditors and the University's senior administrators.
- Review the financial results for the year per the completed audit with the external auditors and the University's senior administrators.
- Provide recommendations to the Finance Committee regarding the annual financial reports.
- Review significant accounting and reporting issues, including complex or unusual transactions in highly judgmental areas and recent regulatory pronouncements and their impact on the financial statements.

External Auditors

- Approve the selection or discharge of the external auditors. The auditors' fees are to be negotiated by the Executive Vice President for Finance and Administration and summarized annually for the Audit and Compliance Subcommittee.
- Ensure continued quality and independence of external auditors by periodically examining internal quality-control reports or peer reviews of the firm. Additionally, review and confirm the external auditors' independence by obtaining statements from the auditors on any relationships between the auditors and the University.

Internal Auditors

- Review, approve and periodically revise, if necessary, the Internal Audit Charter.
- Approve the selection, reassignment or dismissal of the chief audit executive.
- Review the objectivity, resources and overall effectiveness of the Office of Internal Audit including compliance with The Institute of Internal Auditors' *International Professional Practices Framework*.
- Review and approve the annual Internal Audit work plan, including any subsequent modifications.
- Review the performance of the Office of Internal Audit relative to its annual audit work plan.
- Obtain regular updates from the chief audit executive regarding the effectiveness of the University's system of internal controls and compliance with applicable laws, regulations, and University policies.

University of Kentucky
Charter of the Audit and Compliance Subcommittee of the Finance Committee of the Board of Trustees

Purpose

The Audit and Compliance Subcommittee ~~is to assist~~ provides oversight of the ~~Board of Trustees and its Finance Committee in fulfilling its fiduciary responsibility to oversee quality and integrity of the~~ University's auditing functions and external financial reporting ~~practices and the independent audit of those processes. In carrying out its responsibilities, the~~ The Audit and Compliance Subcommittee does not provide expert or special assurance regarding the University's financial statements. ~~Specifically, the University's senior administrators will report to the Audit Subcommittee on the University's:~~

- ~~financial statements;~~

In accordance with University Governing Regulation, Part II, E-2-c the Audit and Compliance Subcommittee:

- Reviews recommendations and appoints the external auditors
- Receives and reviews the annual reports from the external auditors and makes recommendations to the Finance Committee concerning these reports; and

- Receives and reviews reports from the Senior Director of Internal Audit on the University's system of internal controls; and

- compliance with applicable laws, regulations, and University policy, and reports on such to the Finance Committee.

Structure

Authority

~~The Chair of the Finance Committee of the University of Kentucky Board of Trustees shall serve as Chair of the~~ Audit and Compliance Subcommittee's purpose is carried out with functional authority over the external and internal auditors and the authority to initiate investigations into any matters within its scope of responsibility.

Structure

~~The Audit and Compliance Subcommittee. The Audit Subcommittee membership~~ shall be composed of a minimum of three ~~Finance Committee members and fewer and no more than six total seven~~ members from the Board of Trustees. ~~Audit Subcommittee members will be nominated and appointed through the current Board of Trustees utilizing the standard nomination and appointment process for committee formation process and Chair selection. Members should be independent of management and without business relationships that could interfere with the exercise of good judgment, disclosing any conflicts. Any dispute regarding independence should be reviewed by the Finance Committee of the Board of Trustees for final resolution. At least one member of the Audit and Compliance Subcommittee should have accounting or financial expertise,~~

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Meetings

The Audit and Compliance Subcommittee will meet at least twice per year with authority to convene additional meetings, ~~as circumstances require.~~ All members are expected to attend each meeting. ~~As necessary or desirable, the Chair may request that the Executive Vice President for Finance and Administration, the Vice President for Financial Operations and Treasurer, the Controller, the Senior Director of Internal Audit, other senior administrators and/or representatives of the independent auditors' firm be present at a meeting of the Audit Subcommittee. For a quorum to exist, two out of three members should be present. If more than three members exist,~~ a quorum will be fifty percent plus one. The Audit and Compliance Subcommittee may invite members of management, external or internal auditors or others to attend meetings and provide pertinent information.

Functions

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Audit and Compliance Subcommittee Responsibilities

The Audit Subcommittee is to:

General Responsibilities

- Review, approve and periodically revise, if necessary, this Charter of the Audit and Compliance Subcommittee of the Finance Committee of the Board of Trustees.
- Review any significant findings and recommendations of the external or internal auditors, together with management's response. Report such findings and recommendations to the Finance Committee if not resolved in a timely manner.

Annual Financial Reporting Responsibilities

- ~~1. Review with review the planned audit scope of the financial reports with the external auditors and the University's senior administrators.~~
- ~~1. Review the financial results for the year per the completed audit with the external auditors and the University's senior administrators and the independent auditors, upon completion of the audit, financial results for the year.~~
- Provide recommendations to the Finance Committee regarding the annual financial reports.
- ~~2. Review significant accounting and reporting issues, including complex or unusual transactions and in highly judgmental areas, and recent professional and regulatory pronouncements and their impact on the financial statements.~~

Independent

External Auditors

- ~~3. Serve as the authority to which the independent auditors report. The Audit Subcommittee of the Board of Trustees' Finance Committee has the ultimate authority and responsibility to appoint, compensate, retain, oversee and, where appropriate, replace the independent auditors.~~
- ~~4. Review, prior to the start of the annual audit, the scope and general extent of the independent auditors' planned examination, including the engagement letter. The auditors' Approve the selection or discharge of the external auditors. The auditors' fees are to be arranged with negotiated by the Executive Vice President for Finance and Administration and summarized annually for the Audit Subcommittee's review, and Compliance Subcommittee.~~
- ~~5. Review at least annually a report describing the independent auditors' firm's Ensure continued quality and independence of external auditors by periodically examining internal quality-control procedures and any material issues raised by the latest internal quality control reports or peer reviews of the firm. Additionally, review of the firm.~~

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~~6. Review with the Executive Vice President for Finance and Administration and the independent auditors the extent of non-audit services planned to be provided by the independent auditors in relation to the objectivity and independence needed in the audit. All non-audit related services, other than related accounting or tax research and/or tax return preparation, to be performed by the independent auditors, and related fees, are to be reviewed and approved by the Audit Subcommittee prior to the independent auditors beginning work on such services.~~

7. Review and confirm the external auditors' independence of the independent auditors by obtaining statements from the auditors on any relationships between the auditors and the University.

~~8. Meet with University's senior administrators and/or independent auditors as necessary.~~

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Internal Auditors

9. Review and, approve and periodically revise, if necessary, the Internal Audit Charter.

• Review with University's senior administrators and Approve the Senior Director selection, reassignment or dismissal of Internal Audit the chief audit executive.

~~10. Review the objectivity and resources of the Internal Audit Department.~~

11. Review, with the Senior Director of Internal Audit, the and overall effectiveness of the internal audit function, Office of Internal Audit including compliance with The Institute of Internal Auditors' International Professional Practices Framework for Internal Auditing consisting of the Definition of Internal Auditing, Code of Ethics and the Standards...

• Concur in the appointment, replacement, reassignment, or dismissal Review and approve the annual Internal Audit work plan, including any subsequent modifications.

~~12. Review the performance of the Senior Director Office of Internal Audit.~~

13. Review and approve the Internal Audit Plan for the current year and all major changes relative to the Plan.

14. Review, with the Senior Director of Internal Audit, the results of internal its annual audit activities and progress with respect to the Internal Audit Plan-work plan.

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Internal Controls

~~15. Review with the Executive Vice President for Finance and Administration and the independent auditors:~~

- ~~The Obtain regular updates from the chief audit executive regarding the effectiveness of the University's system of internal controls, including the status and adequacy of information systems and other data and security, the overall control environment, and accounting and financial controls.~~

- Any related significant findings and recommendations of the independent auditors, together with management's response thereto, including the timetable for implementation of recommendations to change internal controls.

Compliance

16. Obtain regular updates from the Senior Director of Internal Audit regarding and compliance matters with applicable laws, regulations, and adherence to University policy.

- policies.

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UK INTERNAL AUDIT ANNUAL REPORT

2013

Putting the pieces together...



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Message From the Director



“Putting the Pieces Together”

On behalf of your University of Kentucky Internal Audit Department (UKIA), I am pleased to present our fiscal year 2013 (FY 2013) Annual Report, “Putting the Pieces Together.” In keeping with this theme, throughout the report we have highlighted ways in which UKIA collaborates to achieve our objectives. Client consultations, process-owner partnerships and University Committee participation are a few of the methods used for overall effective collaboration. A dashboard is utilized to measure our progress throughout the year and as a reporting tool .

Your Internal Audit Department engaged in the following noteworthy activities during FY 2013: 1) Began a collaboration with Treasury Services to share and analyze information gathered 2) Served on the Board of Directors of the Central Kentucky Chapter of the Institute of Internal Auditors and regularly presented at monthly meetings 3) Provided insight to the University regarding adherence to various federal regulations and overall fiscal management 4) Were active participants in community outreach. Not all of our activity is documented in the following pages of this Annual Report.

Our report is divided into two areas. The first area describes the services performed in FY 2013 and changes to UKIA’s infrastructure. The second area details UKIA’s overall FY 2013 results per our dashboard. You will also find our Mission Statement on the back cover.

It is a pleasure to work with the UK Community as UKIA continues to pride itself in “Putting the Pieces Together.” It is one of the ways in which we add value. We would also like to thank UK Administration for their support.

Sincerely,

Joe Reed, Senior Director

FY 2013 Services Performed

UKIA completed an array of auditing and advisory services in FY 2013 including the following types of reviews: comprehensive, information technology, follow-up, consultations/inquiries, assessments and continuous auditing. Our services are designed to meet the University's needs from reviewing a process or unit, to consulting with our clients. The following is a sample of UKIA reviews performed in FY 2013:

- Comprehensive - Athletics Ticket Office and Cooperative Extension Service
- Information Technology - HIPAA and Continuous Auditing Analytics
- Consultations - Account Reconciliation Process and Asset Management

Enterprise Divisions

To ensure coverage of the entire University, UKIA has segmented the University into "auditable" enterprise divisions. This allows UKIA to assess risks, evaluate practices and review trends for commonalities and best practices. These six Enterprise Divisions, in alphabetical order are:

- 1) Academic Units - Academic colleges that report to the Provost
- 2) Campus Operations - Non-academic units that report to the Provost
- 3) Finance and Administration - Those units reporting to the Executive Vice President for Finance and Administration
- 4) UK Administration - Those units reporting to the President
- 5) UK Affiliates - Corporate entities over which the University exercises effective control
- 6) UK HealthCare - Those units reporting to the Executive Vice President for Health Affairs



Martin Anibaba (IT) and Anastasia Myers-Wilson (Business) collaborate to complete a task

Infrastructure

Staffing

The team has grown by one staff member over the past fiscal year bringing the total to 11 team members, including the Senior Director. UKIA staff is continually keeping pace with the ever-changing needs of the University and the continuing education and training requirements of the internal auditing profession. All of the new staff members are on the fast track to learn UKIA policies and procedures and University guidelines. The organizational structure consists of three major divisions which are:

- 1) Administration/Operations
- 2) Business audits and
- 3) Information Technology audits.

Quality Assurance

UKIA has identified and implemented a 21-step systematic audit process in FY 2013 which thoroughly defines the work to be performed. By design, the new system emphasizes the need for adherence to ensure all necessary audit work is consistent and completed. UKIA has a staff member dedicated to quality assurance, reviewing audit work papers and ensuring adherence to the new audit process and work paper requirements.

Infrastructure Initiatives





UKIA initiatives related to increasing audit-coverage include:

- 1) Installation and configuration setting for UKIA's new data-mining software to (a) reduce audit cycle time and (b) expand transaction testing to entire populations.
- 2) Offering student internship program in FY 2014 to assist with advisory and assurance activities.
- 3) Collaborating with faculty to provide practical experience through student projects for academic credit.



Fiscal Year 2013 Overall Results

Key

Review Completed	
Review Not Completed	
Metric Achieved	
Metric Not Achieved	

The below dashboard is a departmental tool to measure UKIA's results. The following pages will explain each quadrant and the reported audit results for Fiscal Year 2013. The dashboard reflects the FY 2013 challenges from new infrastructure and employee turnover. Furthermore, the adoption of a new systematic audit process with respective work paper requirements and state-of-the-art data mining software caused delays in audit completion. Regardless of these issues, UKIA's overall results were positive in FY 2013.

FY 2013 UKIA Approved Work Plan		FY 2013 UKIA Unplanned Reviews	
Cash Audits		1	Art Sculpture Department Donations
1	Cash Audits	2	Lockbox Inventory
Business/Operations Audits		3	Consultation - Fleet Inventory Management Process
2	College of Fine Arts (Art Department)	4	Consultation - Account Reconciliation Process
3	College of Engineering	5	Consultation - Account Reconciliation - Record Retention
4	Pharmaceutical Management	6	Consultation - Independent Contractor Form Requirements
5	Athletics and Student Affairs Assessment	7	Consultation - College of Ag Extension Offices - IT
6	College of Agriculture Extension Offices	8	Consultation - Gift Restriction Compliance
7	Center for Excellence in Rural Health	9	Consultation - Tracking of Minor Assets
8	Clery Act	10	Consultation - Telephone Records - Record Retention
9	Undergraduate Education	11	Consultation - Administrative Manual Development
10	Audit Follow-up	12	Inquiry - Real Estate Services
Information Technology Audits		13	Consultation - ProCard Edits
11	IPOP - College of Pharmacy	14	Consultation - Account Reconciliation - Documentation
12	HIPAA	15	Consultation - Imprest Account
13	Continuous Auditing	16	Consultation - Digital Signatures
14	College of Engineering	17	
15	Research (UKRF)	18	
FY 2013 UKIA Audit Coverage By Enterprise Division		FY 2013 UKIA Metric Update	
Academic Units		Productivity	
Number of Reviews, Committees, Consultations	11	Goal @ 75%	
Project Hours	5,640	Performance @ 85% (12,016 Direct Hours; 14,150 Total Hours)	
UK HealthCare		Infrastructure	
Number of Reviews, Committees, Consultations	15	Hours vs. Direct Hours - Goal @ 15% of Direct Hours	
Project Hours	2,019	Performance @ 6% (675 Infrastructure Hrs; 12,016 Direct Hrs)	
Finance and Administration		Recommendations Accepted (Requiring Management Response)	
Number of Reviews, Committees, Consultations	14	Goal @ 75%	
Project Hours	1,690	Performance @ 100%	
Campus		Survey Results	
Number of Reviews, Committees, Consultations	7	Goal @ 3.0 (average scale 1 is not satisfied and 4 is very satisfied)	
Project Hours	883	Performance @ 3.3 average	
UK Administration (Includes Athletics)		Audit Duration	
Number of Reviews, Committees	4	Goal @ 6 - 12 weeks	
Project Hours	947	Performance @ 9 weeks	
Affiliates		Work Plan Completion Rate	
Number of Reviews, Committees	1	Goal @ 100%	
Project Hours	162	Performance @ 60% (15 Planned; 9 Completed)	

Planned Activity

FY 2013 Audits

The dashboard quadrant to the right represents the FY 2013 Audit Work Plan, approved by the Audit and Compliance Subcommittee of the Finance Committee of the UK Board of Trustees. This section comprises the reviews approved for FY 2013. The colored bars at the right of the review titles denote the status of each as of the end of FY 2013. Green denotes that the review was completed; red denotes that the review was not completed and is scheduled for completion in FY 2014.

FY 2013 UKIA Approved Work Plan		
Cash Audits		
1	Cash Audits	Green
Business/Operations Audits		
2	College of Fine Arts (Art Department)	Green
3	College of Engineering	Red
4	Pharmaceutical Management	Red
5	Athletics and Student Affairs Assessment	Green
6	College of Agriculture Extension Offices	Green
7	Center for Excellence in Rural Health	Green
8	Clery Act	Green
9	Undergraduate Education	Red
10	Audit Follow-up	Green
Information Technology Audits		
11	IPOP - College of Pharmacy	Red
12	HIPAA	Green
13	Continuous Auditing	Green
14	College of Engineering	Red
15	Research (UKRF)	Red

Cash Audits

UKIA conducted eight unannounced cash audits in FY 2013 consisting of four audits in the UK HealthCare Division (totaling 605 hours) and four audits in the Campus Division (totaling 463 hours). These types of audits evaluate departmental adherence to University regulations and are regularly performed across University departments.

In addition to the unannounced cash audits, as part of the comprehensive or follow-up review process, seven additional cash reviews were performed. Cash handling reviews in FY 2014 will continue to be an area of audit emphasis for UKIA.



*David Kjelby and Lee Walker
Employees collaborate on the new audit process
(Staff members hired at the end of FY 2012)*

Planned Activity

Business Audits

Comprehensive Audits

These unit or process reviews focus on business practices and evaluate internal control environments. The audit objective is to ensure compliance with applicable laws and regulations, integrity of financial reporting, safeguarding of assets and operational efficiency and effectiveness. Below is a summary of FY 2013 Comprehensive Reviews:

Academic Units - 3 audits

Finance and Administration - 2 audits

UK Administration - 1 audit

UK HealthCare - 2 audits

Follow-up Audits

The purpose of the Follow-up Audit is to report on management's progress in the implementation of resolutions to address the findings identified in original audit reports. Below is a summary of Follow-up Audits performed in FY 2013:

Academic Units - 1 audits

Campus - 2 audits

UK Affiliates - 1 audit

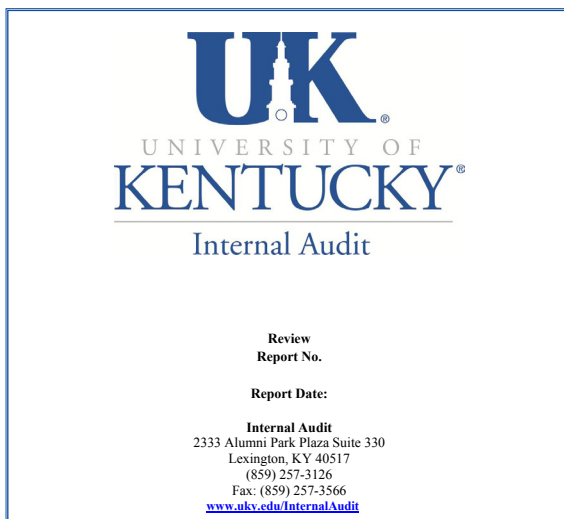
UK HealthCare - 1 audits

Assessments

An Assessment identifies and evaluates the potential risks of a University unit with multiple departments. The risks are prioritized in order to establish an audit cycle for the unit departments over several years. UKIA conducted two Assessments in FY 2013 as noted below:

Campus- 1 audit

UK Administration- 1 audit

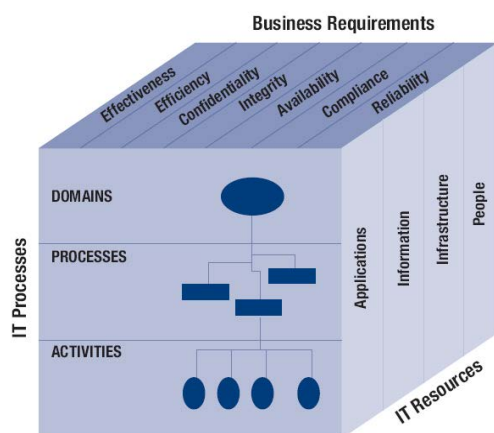


Planned Activity

IT Audits

Information Technology Reviews

Information Technology reviews are conducted to evaluate the quality of the controls and safeguards over the information technology resources of the University in line with the COBIT Framework. These audits normally consist of reviewing the effective use of information technology resources, adherence to management's policies and the design and implementation of adequate controls over computer applications and the computing environments in which they are used. Evaluation of evidence can ensure whether the organization's information systems safeguard assets, secure data, maintain data integrity, and operate effectively and efficiently to achieve the organization's goals or objectives.



This section comprises the Information Technology (IT) reviews for FY 2013. It includes the information systems component of the business comprehensive and follow-up reviews. In addition, it includes continuous auditing projects and Information Technology audits of data centers that exist apart from UK's main Information Technology infrastructure. The following is the breakdown of planned IT audits by Enterprise Division completed in FY 2013:

Academic Units - 1 audit

Campus - 2 audits

Finance and Administration - 2 audits

UK Healthcare - 3 audits

UK Affiliates - 1 audit

UK Administration- 2 audits

Continuous Auditing Reviews

Continuous auditing reviews examine areas of high-risk for noncompliance utilizing computer-aided auditing techniques to detect exceptions. These audits compare system information using specific information with specified criteria. Vendor employee match and duplicate vendor records are examples of UKIA's continuous auditing projects for the Finance & Administration Enterprise Division that were engaged in FY 2013.

Unplanned Activity

This quadrant represents those engagements performed by UKIA that were not part of the approved work plan. Examples of unplanned activity include inquiries, consultations and reviews that are described on the following page. Unplanned activity can also include management requests for a specific audit to be performed.

FY 2013 UKIA Unplanned Reviews		
1	Art Sculpture Department Donations	
2	Lockbox Inventory	
3	Consultation - Fleet Inventory Management Process	
4	Consultation - Account Reconciliation Process	
5	Consultation - Account Reconciliation - Record Retention	
6	Consultation - Independent Contractor Form Requirements	
7	Consultation - College of Ag Extension Offices - IT	
8	Consultation - Gift Restriction Compliance	
9	Consultation - Tracking of Minor Assets	
10	Consultation - Telephone Records - Record Retention	
11	Consultation - Administrative Manual Development	
12	Inquiry - Real Estate Services	
13	Consultation - ProCard Edits	
14	Consultation - Account Reconciliation - Documentation	
15	Consultation - Imprest Account	
16	Consultation - Digital Signatures	

In FY 2013, a total of 16 Unplanned Reviews were performed.

The following is a breakdown of projects completed by Enterprise Division:

Academic Units - 6 Reviews

Finance and Administration - 4 Reviews

UK Administration - 1 Review

UK HealthCare - 5 Reviews

Unplanned Activity

Consultations/ Inquiries

A Consultation involves a collaborative agreement between UKIA and the client regarding the audit focus. Committee participation and workshops/seminars are also categorized in this service area as are inquiries worthy of UKIA's attention.

FY 2013 represented the fifth full year of Consultation services offered by UKIA. Consultations result in a formal communication issued to a department's management regarding opportunities for process improvements or the adequacy of new system implementation. Inquiries result in a formal communication regarding the outcome of a particular concern.



Investigations

Investigations develop from various routes including tips (Comply Line and calls to UKIA), auditor observations and UK Police reports. Investigations examine events that may have led to a monetary or physical loss to the University. The role of UKIA is to accurately document the event and root cause.

UKIA ensures that appropriate units within the University's Multi-department Action Group (MAG) have the knowledge of UKIA investigations in order to take suitable action. The MAG is comprised of: UKIA, HR, Legal, UKIT and UK Police.



Audit Coverage by Enterprise Division

This quadrant shows that in FY 2013, a total of 11,341 hours were worked in support of the 6 Enterprise Divisions. The following documents the types of reviews performed within the associated divisions:

Academics Units - Total: 5,640 Hours

3 Comprehensive Reviews

1 Follow-up Review

6 Consultations

1 Committee Participation

Affiliates - Total: 162 Hours

1 Follow-up Review

Campus - Total: 883 Hours

2 Follow-up Reviews

1 Assessment

4 Cash Audits

Finance and Administration -

Total: 1,690 Hours

2 Continuous Audits

2 Comprehensive Reviews

3 Consultations

1 Inquiry

6 Projects - Committee Participation,

Professional Organizations and

Professional Presentations

FY 2013 UKIA Audit Coverage By Enterprise Division	
Academic Units	
Number of Reviews, Committees, Consultations	11
Project Hours	5,640
UK HealthCare	
Number of Reviews, Committees, Consultations	15
Project Hours	2,019
Finance and Administration	
Number of Reviews, Committees, Consultations	14
Project Hours	1,690
Campus	
Number of Reviews, Committees, Consultations	7
Project Hours	883
UK Administration (Includes Athletics)	
Number of Reviews, Committees	4
Project Hours	947
Affiliates	
Number of Reviews, Committees	1
Project Hours	162

UK Administration - Total: 947 Hours

1 Assessment

1 Comprehensive Review

1 Consultation

1 Committee Participation

UK Healthcare - Total: 2,019 Hours

2 Comprehensive Reviews

1 Follow-up Review

4 Cash Audits

3 IT Audits

5 Consultations

Metrics

The quadrant below reflects the status of each UKIA metric as of June 30, 2013. The black status bar denotes that the metric was achieved; the gray denotes that the metric was not achieved.

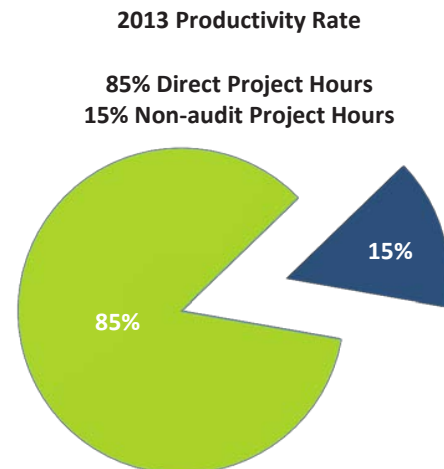
FY 2013 UKIA Metric Update	
Productivity Goal @ 75% Performance @ 85% (12,016 Direct Hours; 14,150 Total Hours)	
Infrastructure Hours vs. Direct Hours - Goal @ 15% of Direct Hours Performance @ 6% (675 Infrastructure Hrs; 12,016 Direct Hrs)	
Recommendations Accepted (Requiring Management Response) Goal @ 75% Performance @ 100%	
Survey Results Goal @ 3.0 (average scale 1 is not satisfied and 4 is very satisfied) Performance @ 3.3 average	
Audit Duration Goal @ 6 - 12 weeks Performance @ 9 weeks	
Work Plan Completion Rate Goal @ 100% Performance @ 60% (15 Planned; 9 Completed)	

Metric #1 - Productivity

Goal - 75%

Performance - 85%

UKIA's productivity goal of 75% translates to actual hours of production. The productivity calculation is used to forecast individual audit assignments for the Annual Work Plan. FY 2013 productivity exceeded this goal with an actual rate of 85%. The chart to the right presents a breakdown of direct project hours and non-audit project hours.

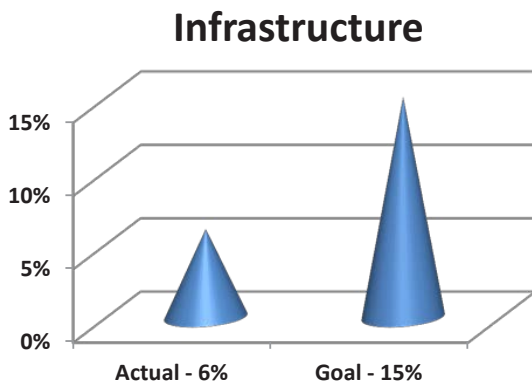


Metric #2 - Infrastructure

Goal - 15%

Performance - 6%

Direct hours associated with the improvement of UKIA Infrastructure are tracked throughout the year. UKIA's goal for FY 2013 was for 15% of direct hours to be spent on UKIA infrastructure projects. The goal was not achieved as only 6% of direct hours were spent on UKIA infrastructure.



Metric #3

Recommendations Accepted

Goal - 75%

Performance - 100%

UKIA's goal is to have 3 out of every 4 recommendations requiring a response from management to be accepted. Recommendations are categorized as those that are accepted, those that are not accepted and those that do not require a management response. The goal was achieved, as 100% of the recommendations requiring a response from management were "accepted" for FY 2013.

Metric #4 - Survey Results

Goal - 3.0

Performance - 3.3

We at UKIA pride ourselves in personally maintaining a high level of customer satisfaction, thus client feedback is important. The UKIA Quality Assurance support staff sends an electronic survey to measure satisfaction and obtain feedback. The results are sent to UKIA Quality Assurance support staff to be recorded and analyzed. Follow-up interviews may be conducted.

TAKE THE SURVEY

Feedback is focused in four areas: 1) Impression of UKIA Before and After the Audit 2) Communication with Client 3) Professionalism and 4) Value of Audit. Internal Audit's cumulative rating was well above satisfactory for clients who submitted feedback using the following rating scale: 1.0 - Not satisfied; 2.0 - Somewhat satisfied; 3.0 - Satisfied; 4.0 - Very satisfied. The feedback we receive is vital in helping us continually improve.

"The management and staff of our Department would like to express their gratitude to UKIA for its careful and considerate review of our operations and systems."

UKIA Client

Metrics

Metric #5 - Audit Duration

Goal - 6 - 12 Weeks

Performance - 9 Weeks

UKIA defines Audit Duration as the total time of UKIA's interaction with the client during planned reviews. It begins on the date of the initial client meeting and ends on the date of the presentation of audit results. UKIA's goal is to have an average audit duration of six to twelve weeks. The goal was achieved as the average audit duration for FY 2013 was nine weeks. This measurement excludes unplanned activities.

Metric #6 - Work Plan

Completion Rate

Goal - 100%

Performance - 60%


For each fiscal year, UKIA's goal is to have a 100% completion rate of its approved Work Plan. For FY 2013, the completion rate was 60%. UKIA is assessing this metric to improve future performance.



Continually working to put the pieces together

UKIA Mission Statement

To support UK in its pursuit of excellence by providing advisory and assurance guidance to champion reasonable assurance regarding the achievement of management objectives.



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