

# MINUTES OF THE AUDIT AND COMPLIANCE COMMITTEE

University of Kentucky Board of Trustees

December 13, 2016

8:00 a.m. – 9:00 a.m.

## Committee Members Present

Claude A. “Skip” Berry, III (Chair), Mark Bryant, Angela Edwards, Bill Britton, David Hawpe, Jennifer Barber, and Kelly Craft

## Approval of Minutes

The minutes of the September 9, 2016 Audit and Compliance Committee (ACC) meeting were approved as presented.

## Reports and Discussion Items

### BKD Presentation

*Jim Creeden, Partner and Joanie Duckworth, Senior Manager*

Mr. Creeden discussed the 2016 audit engagement for the University of Kentucky. Overall, the University received a clean report on the financial statement audit and Mr. Creeden noted BKD provides reasonable rather than absolute assurance on the University’s financial statements. Three major federal programs were audited as required by OMB Uniform Guidance as follows: the Student Financial Aid Cluster, the Childcare and Development Fund, and the Race to the Top Early Learning Challenge. Compliance with federal regulations along with the internal controls were tested/reviewed for each program. The audit of the Student Financial Aid Cluster resulted in a qualified opinion. BKD is required to communicate these results to the ACC.

There are certain estimates that management must make in order to determine certain balances. The collectability of receivables recorded on the balance sheet are estimated by management. Estimates for investments and the University’s self-insurance and other accruals are also made by management at year-end. Revenue recognition is also an area of emphasis as it is considered a risk area. In regards to audit adjustments, there was one proposed audit adjustment that was recorded within the financial statements. This was a reclassification between accounts receivables and other third party estimates for KY Health Coop Reserves. There were not any matters to report on interactions with management. Mr. Creeden commented that management was very helpful and cooperative, as always. With regards to internal controls there were no material weaknesses or significant deficiencies noted in the report. One material weakness was found in the Student Financial Aid Cluster where the findings related to the required reporting of student status changes resulting in a qualified opinion.

A question was asked regarding BKD’s opinion on the frequency of these types of Student Financial Aid findings. Ms. Joanie Duckworth from BKD stated that it was a common issue that they find across many Universities.

### Office of the Treasurer Presentation

*Susan Krauss, Treasurer*

Ms. Krauss discussed the corrective action plan to address the audit findings noted for the Student Financial Aid Cluster, developed by the Office of the Treasurer, Enrollment Management and Enterprise Applications Group. Because findings in the Student Financial Aid Cluster have been a recurring problem for the University, management has determined that it would be prudent to have Internal Audit add compliance testing for this area to their recurring work plan. In addition, the following have been implemented as part of the corrective action plan:

- Improved reporting schedule for reporting enrollment and graduation status to the National Student Clearinghouse (NSC) to allow for sufficient time for resolution of errors and timely submission to the National Student Loan Data System (NSLDS).
- Improved oversight of data submission, data quality and error resolution. The University is now receiving a detailed error report from the NSC and is able to resolve the errors in the timeframe required by the NSLDS.

- Clearly assigned responsibilities for the entire process

Mr. Martin Anibaba with UK Internal Audit discussed a two-point plan to address these issues with the first being data analytics. He stated that Internal Audit met with Student Financial Aid, Enrollment Management and the Enterprise Application Group to understand the root cause of the audit findings. Internal Audit is currently reviewing the new process. Under this two-point plan internal audit will utilize ACL software for analyzing 100% of the data. Given the regulatory stipulation that the University must report changes in student status within the last 60 days of discovery, data analytics will be used to compare historic data with current data. The focus of this analysis will be the Degree and Enrollment data elements as required by the NSLDS. The second will be an Information Technology Audit of the EAG Data preparation process focusing on Data Integrity.

A question was asked if the University believes that the sample taken by BKD was reflective of the population? Mr. Creeden responded that based on the fact that this area is a low control risk a sample of 25 students was appropriate.

A question was asked as to whether any students had been harmed by this error. Ms. Krauss stated no.

A question was asked if this incident put UK in any jeopardy with student financial aid and the federal government. Ms. Krauss stated no. As mentioned previously, the Student Financial Aid Cluster is an area with many complex regulations and it is common for institutions to receive findings in this area. The University has had findings in this area on a recurring basis, with qualified opinions noted in fiscal years 2012, 2014 and 2016. Therefore, management has determined it is prudent for Internal Audit to spend time to this area in the future. If the University were to have repeat findings several years in a row, it could jeopardize the University's accreditation; however, management will prevent that from happening.

### **UK Internal Audit Presentation**

*Joe Reed, Chief Audit Executive*

Mr. Reed gave the annual report for Fiscal Year 2016. Internal Audit experienced four significant events. The department was relocated from Alumni Plaza to Cold Stream Laboratories. The staff has grown with three new people. These persons were Marc Blevins, Rose Stewart and Sam Woolery. A research project was started which is led by Dr. Kimbrough, who has been working with a student on this research. The UKIA student intern program continues to be an area of emphasis. Program participants have gone on to graduate and pursue careers.

In fiscal year 2016, Internal audit has completed eight sessions of the Business of Fraud Seminar as well as working with Dr. Urton Anderson's class in the spring and fall. In addition, the Annual Kentucky College and University Auditor's Meeting was facilitated and held by the University of Kentucky. Three of our staff were selected to present out at the ACUA conference last year as well as publish two articles.

Fiscal year 2016 audit activity was as follows: 29 compliance reviews, 16 surprise unannounced reviews, 17 business reviews, 6 information technology reviews, and 11 infrastructure reviews. Internal Audit had 63 larger projects to be engaged in for FY 2016 with 41 having been completed. Productivity was at 81% which is beyond our goal of 75%. According to our records 100% of audit recommendations were accepted, achieving our goal. Survey results were above average at 3.48. The work plan completion rate of 75% will be going away in the future due to our dynamic work plan.

### **Committee Member Discussion**

*Mark Bryant and David Hawpe, Audit and Compliance Committee Members*

Trustee Bryant asked to speak to the committee. Bryant stated that he appreciated what UK Internal Audit has done and all of the staff. Trustee Hawpe also noted that the team is well led and he is very proud of the work that is completed by UK Internal Audit.

### **UK Internal Audit Presentation**

*Alegha Colwell, Quality Assurance Coordinator and Ralph Kimbrough, Audit Manager*

Dr. Ralph Kimbrough and Mrs. Aleigha Colwell gave a presentation on the FY 2016 Comply Line activity. The trend for over the past two years is that more than 50% of the comply line concerns are submitted in written form versus by phone. Information is used to determine how it impacts each enterprise division to determine if audit coverage is adequate. Ninety-one of the contacts were in UK Healthcare which is due to the 1998 regulatory act. The comply line informs UKIA of major concerns.

The 109 reportable contacts are divided over the following two groups. The first group are the supporting organizations such as Human Resources, UK police, UK Internal Audit, Institutional Equity and Office of Equal Opportunity, and Corporate Compliance. The second group are operating organizations that is comprised of UK Healthcare, Finance and Administration and Campus Operations. Eighteen concerns were assigned among different areas. Five were assigned to UKIA. The remaining thirteen were based on risk so these are verified by performing an inquiry. If an inquiry is defined as a risk, an audit is created. If it is not deemed a risk, it is added it to our repository for future reference.

UKIA consolidates the data from the concerns and the audit staff conducts the inquiry. The information obtained is entered into our repository to query and expound on later. UKIA conducts risk assessments which aids in determining the work plan which is presented for approval each quarter.

### **Action Items**

ACC 1 Work Plan Approval for Third Quarter Review was presented for approval. The motion was made by Trustee Britton and seconded by Trustee Hawpe.

### **Other Business**

Chair Berry called on General Counsel for other business. Counsel Thro addressed that Chair Berry has noted that his firm seeks advice in complying with the law and the board as his construction firm bids on any jobs in relation to the University of Kentucky.

### **Adjournment**

With no further business to discuss Chair Berry asked for a motion to adjourn the meeting. Trustee Hawpe made a motion and Trustee Bryant seconded the motion. The meeting was adjourned.

### **Next Meeting**

Friday, February 17, 2017

Respectfully submitted,

Ralph Kimbrough