

**MINUTES OF THE AUDIT AND COMPLIANCE COMMITTEE**  
**University of Kentucky Board of Trustees**  
**December 12, 2017**  
**9:30 a.m. – 10:30 a.m.**

**Committee Members Present**

Claude “Skip” Berry, Jennifer Barber, James Booth, Mark Bryant, and David Hawpe

**Approval of Minutes**

The minutes from the September 15, 2017 Audit and Compliance Committee (ACC) meeting were approved as presented.

**Reports and Discussion Items**

**Baird, Kurtz & Dobson (BKD) External Audit**

*Presented by: Jim Creeden, BKD*

Mr. Jim Creeden, BKD Partner, reviewed the 2-page audit summary for the Fiscal Year 2017 audit, focusing on the Financial Statements’ unmodified opinion referenced on page 11 of Directors Desk.

Ms. Joanie Duckworth, BKD Manager, reviewed the Required Communications to the financial statements, on page 13, tab 2, and proposed audit adjustments (determined to be immaterial) both individually and in the aggregate.

BKD clarified their audit responsibility as providing reasonable assurance not absolute assurance. They did not perform 100% testing. BKD emphasized that an audit of the financial statements does not relieve UK of their responsibilities for the presentation of the financial statements.

Mr. Jim Creeden discussed audit compliance under Office of Management & Budget (OMB) Uniform Guidance stating the University’s Federal Awards are within compliance with the Uniform Guidance Cost Principles.

Mr. Jim Creeden explained the selection process for the audit, identifying that for the Fiscal Year 2017 audit, the following Cluster Programs were selected for review:

- Student Financial Aid Cluster
- Research and Development Cluster
- Supplemental Nutrition Assistance Program

The Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans Standard, (GASB Statement No. 74) has been adopted by the University. This requires changes in Other Postemployment Benefits (OPEB) plan financial statements, footnote disclosures and required supplemental information. It is BKD’s opinion that the University complied with this Standard in all material respects.

BKD’s report disclosed an instance of noncompliance to the OMB Uniform Guidance compliance procedures performed for major federal awards, The finding occurred in the Supplemental Nutrition Assistance Program, page 166 of the workbook. The finding was reportable, however the finding was not deemed a material weakness and BKD’s unmodified opinion was not changed. BKD’s recommendation is that the University should review expenditures charged to the grant especially during the beginning and at the end of the period of

performance. Management is in agreement with the finding and has identified educational opportunities to resolve.

There were no questions from the board.

### **BKD Agreed-Upon Procedures Reports**

*Presented by: Susan Krauss, Treasurer*

BKD performed the same procedures for this engagement as had been done by Dean Dorton in the past. As can be seen on Page 175, Agreed Upon Procedures Report, BKD reviewed compliance of the contract requirements between UK and Kentucky Medical Services Foundation. No items of concern were noted in the report.

BKD performed agreed upon procedures related to UK's management contract for the Eastern State Hospital and Central Kentucky Management Center. On page 214, the Agreed Upon Procedures Report discusses procedures performed related to compliance of the terms with the state regarding Eastern State Hospital and the Central Kentucky Recovery Center. Details for budgeted and forecasted amounts are shown. No items of concern were noted in the report..

BKD performed agreed upon procedures regarding the Department of Athletics' reported statement of revenues and expenses as required by NCAA bylaws. The Agreed Upon Procedures Report on page 221, discusses the bylaws requirement for an outside accounting firm to review the financial data before submission to the NCAA. All procedures were performed without exception.

There were no questions from the board.

### **Student Financial Aid Verification & Enrollment Management**

*Presented by: Joe Reed, Chief Audit Executive*

UKIA would like to acknowledge Enrollment Management and University Financial Services for their joint efforts on this project, and Mr. Reed expressed gratitude to these areas during this audit evaluation.

For Student Financial Aid Verification, UKIA used both a two-way match (a system-to-system test) and a three-way match (a system to system then to hard copy test) to analyze the data for errors.

UKIA is working with Enrollment Management and University Financial Services on this process and wants to make sure the analytic has no false positives. Testing identifies errors before the data is sent to the external agencies for review. We have met with the stakeholders concerning the information that is held in SAP.

Student Financial Aid has an exception tool and UKIA is working with them to enhance this tool. UKIA is currently in the process of developing an analytic.

UKIA identified no errors in 2013 data or fiscal years following 2014.

There were no questions from the board.

## **UKIA 3rd Quarter Work Plan Fiscal Year 2018**

*Presented by: Joe Reed, Chief Audit Executive*

UKIA reviewed the results of the 2<sup>nd</sup> Quarter Work Plan activity by project. UKIA noted that the Student Financial Aid Verification is an ongoing compliance review of the standards. The goal of the new data analytic is to stay abreast of external factors that contribute to the parameters of potential errors and identify them before the information is released. The Nonexempt Overtime Compensation audit of all three hospitals has been conducted and one report was issued for the three audited areas.

As of October 30, 2017, UKIA had not engaged in a new unannounced audit. Although in November 2017, two unannounced audits were initiated. These were the combined audit of cash handling procedures of the College of Dentistry and an unannounced procard audit of the Department of Pharmacology and Nutritional Science.

Due to the resource constraints of our IT staff and onboarding the new IT staff member, UKIA will not engage in any new IT projects for the 3<sup>rd</sup> Quarter.

Due to a backlog of projects, UKIA will not be planning for new activities except for follow-ups.

Trustee Barber asked how UKIA selects an audit: “Is it selected by using a cycle or is it done randomly?”

Reed responded, “It is neither. UKIA assesses the process, and then identifies the owner of the process, which can be a unit. The information in our database is quantified by UKIA business risk factors, coupled with conversations around campus to identify risks. Currently, we do this quarterly; we aspire to conduct this as projects are assigned in the future.”

Trustee Barber asked a follow up question: “Are there already anonymous tips in existence, or have we approved upon how anonymous tips come in?”

Reed responded, “UKIA utilizes the University wide Comply Line; this method of reporting information anonymously is promoted on the back of UKIA’s business cards. In addition to this tip line, UKIA also has a reporting tool on its website for submitting information directly to UKIA.”

### **Action Items**

Chair Berry introduced ACC1 3<sup>rd</sup> Quarter Work Plan for committee approval.

A motion was made by Trustee Bryant, and Seconded by Trustee Hawpe

ACC1 was approved

### **Other Business**

Trustee Bryant stated, “The Board had not been told about any thievery lately, and asked if there was anything that UKIA has uncovered that you can tell us about?”

Joe Reed explained UKIA’s approach is to start as an inquiry, only when the allegations have been substantiated does UKIA proceed to investigation. There isn’t anything right now, but UKIA is continuing to work on issues that arise.

**Adjournment**

With no further business to discuss Chair Berry asked for a motion to adjourn the meeting.

A motion to adjourn was initiated by Trustee Barber and seconded by Trustee Booth.

The meeting was adjourned.

**Next Meeting**

February 23, 2018

Respectfully submitted,

Ralph Kimbrough