

MINUTES OF THE AUDIT AND COMPLIANCE COMMITTEE

University of Kentucky Board of Trustees

February 17, 2017

8:00 a.m. – 9:00 a.m.

Committee Members Present

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

Approval of Minutes

The minutes of the December 13, 2016 Audit and Compliance Committee (ACC) meeting were approved as presented.

Reports and Discussion Items

Office of the Treasurer Presentation

Susan Krauss, Treasurer

Ms. Krauss discussed BKD’s Report on the January 2017 bond offering document and subsequent events review on the June 30, 2016 financial statements included in the offering document. Ms. Krauss stated that there were no material inconsistencies or misstatements of facts noted by BKD in the offering document. Independent review of the offering document is required by auditing standards.

Ms. Krauss discussed BKD’s agreed-upon procedures report on UK’s contract with the state regarding management of Eastern State Hospital and the Central KY Recovery Center. BKD verified the accuracy of the statements of activity for the two entities and documented the reasons for significant budget to actual variances. This report submitted to the Commonwealth of KY and this is the second year BKD has performed these procedures. Eastern State Hospital had no significant budget to actual variances; however, BKD noted a couple of variances for the Central KY Recovery Center.

Ms. Krauss discussed BKD’s agreed-upon procedures report on financial data submitted to the NCAA, as required by NCAA bylaws. The report was submitted to President Capilouto who has the ultimate responsibility for the accuracy and completeness of the financial data. BKD agreed revenues and expenses for the Intercollegiate Athletics Program to supporting documentation and documented the reasons for significant budget to actual variances and prior year to current year variances. There were not any exceptions found as a result of this review.

Ms. Krauss discussed the agreed-upon procedures report that was issued by Dean Dorton Allen Ford, PLLC (Dean Dorton), related to compliance with the contract between UK and KMSF . The report concluded that all payments as noted in the contract between KMSF and UK were in compliance. Ms. Krauss stated that there are two separate boards. The KMSF Board has used Dean Dorton Allen Ford for many years; however, there have been recent discussions about the possibility of utilizing other accounting firms. Ms. Krauss reported she has discussed the possibility of BKD performing these procedures in the future with KMSF’s executive director. There were not any exceptions noted in the report, however Dean Dorton recommended that formal agreements on cost sharing between KMSF and UK be in writing.

A question was asked as to how long has there been this split on cost sharing the fees; how was this not made into a formal agreement up until this point between KMSF and UKHC? This question was answered as follows: the cost sharing arrangements are the result of a long standing verbal agreement however KMSF is currently working with legal counsel and UKHC administration to document the cost sharing agreements in writing.

UK Internal Audit Presentation

Joe Reed, Chief Audit Executive

Mr. Reed presented the new FY2017 Metrics noting the two main categories of efficiency and effectiveness; however, not all of these metrics were used, but all were captured by UKIA in FY2016. A slide was presented discussing the FY2017 updated metrics and utilization as Key Performance Indicators. The metrics were defined, and a FY2017 mid-year update was provided. This included the metrics for office contacts and partnerships, which increases with UKIA campus interactions. Discussions about UKIA verification of management resolutions are completed through conducting follow-ups and the UKIA Risk Assessment process.

Action Items

ACC 1 Execute Fiscal Year 2016-17 Audit Engagement Letter

Ms. Krauss presented ACC 1, which is a recommendation authorizing the Treasurer to execute the engagement letter with BKD for the audit of the financial statements for the year ended June 30, 2017. Ms. Krauss reported this is the second year of the current contract with BKD following an RFP process in late 2015. The audit engagement fees for FY2016 were \$382 thousand and are expected to be slightly higher this year due to additional major programs under uniform guidance requirements and anticipated fees for the KMSF/UK agreed-upon procedures. The executed engagement letter will be presented at the May 2, 2017 meeting and BKD will attend to provide a report on the scope of the audit.

Motion to approve made by Trustee Britton, and seconded by Trustee Edward. ACC 1 approved.

Other Business

Student Financial Aid Cluster Report.

Mr. Anibaba discussed the status of UKIA's review of the Student Financial Aid Cluster. One finding was in 2016 on enrollment status changes regarding the 60-day notification requirement, and the second was the 2014 finding on financial aid verification, which may or may not have an impact on award amounts. UKIA will put a plan together for reasonable assurance to prevent repeat findings in the future. UKIA has met with appropriate stakeholders that have access to the data needed to complete their work. UKIA plans to perform an audit twice a year with regards to the 2014 finding. UKIA will also conduct a quarterly data analysis in regards to the 2016 finding.

Adjournment

With no further business to discuss Chair Berry asked for a motion to adjourn the meeting. Motion to adjourn was initiated by Trustee Bryant and Trustee Britton seconded the motion. The meeting was adjourned.

Next Meeting

May 2, 2017

Respectfully submitted,

Ralph Kimbrough