

MINUTES OF THE AUDIT AND COMPLIANCE COMMITTEE
University of Kentucky Board of Trustees
September 13, 2018
4:00 – 5:00 p.m.

Committee Members Present

Claude “Skip” Berry, Jennifer Barber, Angela Edwards, David Hawpe, and James Booth.

Approval of Minutes

The minutes from the June 22, 2018, Audit and Compliance Committee (ACC) meeting were approved as presented.

Reports and Discussion Items

Internal Audit Fiscal Year 2018 Annual Report

Presented by: UK Internal Audit

In honor of University of Kentucky Internal Audit’s 60th anniversary, Ms. Hoover-Ernst showcased its genesis through present day operations. University of Kentucky Internal Audit (UKIA) was established in 1958 and led by Powers Jones, Internal Audit Director. Over the years, UKIA’s internal auditing services have expanded from accounting and transactional-based activities to an array of services focusing on adding value to the University. These activities have gradually changed over the years to correspond with industry trends and management expectations. UKIA’s methods of communication broadened with such activities as listservs and blogs which have been well received. Ms. Hoover-Ernst closed with sharing the departure of its Audit Manager, Mr. Ralph Kimbrough, who will be retiring in the summer of 2019. Mr. Kimbrough has spent over 25 years in the internal audit field and will be missed.

Mr. Reed began the Fiscal Year 2018 audit report by reviewing the forecasted Fiscal Year 2019 budget. UKIA’s Fiscal Year 2019 budget experienced a slight increase year over year; and it was noted that personnel costs made up 90% of the operating budget. Mr. Reed also shared University Audit unit benchmarking information against its Southeastern Conference (SEC) internal audit counterparts. UKIA had the fourth largest budget.

Currently, UKIA continues to conduct an internship program, which has grown from a few interns to more than 10 this fiscal year. This program benefits the students academically while at the same time increasing the department’s productivity. The department is able to take advantage of this short-term support, allowing the staff to focus on high-level, strategic activities, while the students are able to take away real world experience in the audit field.

Mr. Reed closed this section by focusing on one of the department’s nine services: the unannounced audit. Unannounced audits describe audits where the client is only notified when UKIA arrives at the unit. UKIA currently conducts four unannounced audit types: Non-Exempt Overtime Compensation, ProCard (credit card), Federal Education Rights and Privacy Act, and Cash Management. Additional unannounced audits are being developed. An important component of this service is the collaboration and communication that occurs with the responsible unit governing the audit activity, also known as the process owner. This service is another collaborative activity which augments the relationship between UKIA and University units.

Questions from the reported discussions were:

1. Trustee Barber inquired about Internal Audit's budget relative to the University's entire budget and wondered how this compared to the same at each SEC school.

Response: We do have that information on hand and will provide that to you.

2. Trustee Grossman asked how an appropriate budget is determined for UKIA. If it increases 10 percent each year, what do you base it on? Are you creating and proposing a budget each year, and how do you substantiate it?

Response: The budget is based on the risk assessment and the resources required to fulfill these needs. We do co-source as needed on particular projects to supplement expertise.

3. Trustee Young asked how surprise audits work. Are they conducted on a schedule or cycle?

Response: UKIA's risk assessment process dictates which unit will be reviewed. Audit notification is provided to the unit manager at the time the auditors arrive.

Comply Line Fiscal Year 2018 Report

Presented by: UK Internal Audit

Mr. Reed reviewed the University Comply Line (also denoted as the University Hot Line or Anonymous Third-Party Reporting Tool) activity over the past three fiscal years. From Fiscal Year 2016 through 2018, comply line contact activity increased by approximately 30 (19%), from 155 to 185 over the past three fiscal years.

The Comply Line consists of three types of contacts: informational, duplicate, and reportable. When a reportable contact comes in, it is triaged and reviewed by three units: Human Resources, the Office of Corporate Compliance, and UKIA. While the bulk of reportable contacts are handled by Human Resources or the Office of Corporate Compliance, UKIA documents all contacts in UKIA's audit universe to assist with future project selection.

In Fiscal Year 2018, UKIA was assigned two of the 103 reportable contacts. However, UKIA actively works all contacts by documenting the information from all 103 in its audit universe, allowing UKIA to provide its audit teams with additional insight into the unit and/or the process being evaluated.

Questions from the reported discussions were:

1. Trustee Grossman asked whether UKIA addresses bullying and harassment concerns.

Response: Bullying and harassment concerns are recorded in a risk assessment database, but Human Resources handles these items.

2. Trustee Young: What do you mean when you say you track the Comply Line data?

Response: The Comply Line data is input into our audit universe by its associated unit and process. This information is used to assist in the risk assessment process. The more we know about a unit, the better we can assess it.

Work Plan Review and Approval

Presented by: UK Internal Audit

Mr. Reed began by discussing the development of the Fiscal Year 2019 second quarter work plan. He noted that resources, expertise, and the risk assessment process are included in the basis for the development of the current quarter work plan. He continued by reviewing the Fiscal Year 2019 first quarter activity which is a key component in the creation of the second quarter work plan. Mr. Reed then shared the constraints UKIA faced in the first quarter of Fiscal Year 2019, specifically open positions coupled with unplanned activity. UKIA worked to fill these positions in both the Information Technology and Business areas. With all positions now filled, UKIA plans to release on-hold projects as new members are oriented.

Mr. Reed noted that, in addition to personnel constraints, there are several follow-up reviews in the pipeline as well as nine investigations in progress. Mr. Reed pointed out that when an investigation arises, resources are shifted as necessary. UKIA makes it a priority to investigate concerns because of their unknown risk to the University.

Mr. Reed closed the work plan review by sharing non-audit activities that UKIA offers to the University. These activities include trainings, seminars, and partnerships with other units, as well as Committee participation. Additionally, data analytics and data mining are used to verify and validate information. Questions from the reported discussions were:

1. Trustee Barber asked what percentage of Internal Audit staff is focused on HealthCare. Are there staff for each audit area? Do we have specific persons assigned to UKHC?

Response: All auditors contribute to all audits; we do not have a designated person or staff for any enterprise division.

2. Trustee Barber asked whether the loss of manager Ralph Kimbrough's expertise will affect the internal audit's work plan?

Response: We already have planned for Mr. Kimbrough's departure by realignment and organizational restructuring.

Chair Berry introduced ACC 1 Internal Audit Second Quarter Work Plan for approval. A motion was made by Trustee Barber and seconded by Trustee Edwards. The motion carried.

With no further business, Chair Berry asked for a motion to adjourn. Trustee Edwards moved approval seconded by Trustee Barber. The meeting was adjourned at 4:34pm.