

Minutes of the Audit and Compliance Committee Meeting
University of Kentucky
Tuesday, December 11, 2018

The Audit and Compliance Committee (ACC) of the University of Kentucky (UK) met on Tuesday, December 11, 2018, in Ballroom A of the Bill Gatton Student Center.

A. Meeting Opened

Chair Claude “Skip” Berry III called the meeting to order at 9:32 a.m.

B. Roll Call

The following members of the ACC answered the call of the roll Claude “Skip” Berry III, Jennifer Barber, Elizabeth McCoy, David Hawpe, Robert Vance, and James Booth. Kim McCann, Robert Vance, and Angela Edwards were not in attendance for roll call.

C. Approval of Minutes

Chair Claude “Skip” Berry III reported that the minutes of the September 13, 2018, ACC meeting had been distributed. Trustee Booth moved for approval of the minutes and Trustee Hawpe seconded the motion. The minutes from the September 13, 2018 ACC meeting were approved as presented.

D. Baird, Kurtz and Dobson, LLC (BKD) Report on Fiscal Year 2018 University Financial Statement Audit

Mary McKinley, Partner, and Joanie Duckworth, Senior Manager, Baird, Kurtz and Dobson, LLC (BKD) reported on Fiscal Year 2018 University Financial Statement Audit.

Ms. Duckworth discussed the three major federal award programs on which BKD’s audit focused: the Student Financial Aid Cluster, Cooperative Extension Service Cluster, and the Medicaid Cluster. She explained University of Kentucky and BKD’s responsibilities as they pertain to this audit. The audit focused on compliance with federal statutes, regulations, and requirements of its federal awards as well as consideration of the internal control over compliance. The University received unmodified opinions on the financial statement audit and the report on compliance for major federal awards.

Ms. McKinley explained that there was only a single year financial statement presentation due to the adoption of *Government Accounting Standards Board No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* and *Government Accounting Standards Board No. 81 - Irrevocable Split-Interest Agreements*. These Government Accounting Standards required a retroactive application which included a \$245 million net position reduction for their adoption. She stated that the Management’s Discussion and Analysis section within the financial statements included analysis of statements in a comparative format, prepared by University financial management.

Ms. McKinley discussed that inherent in the financial statements are accounting estimates. BKD reviewed estimates within the Allowance for Doubtful Accounts which included student accounts, patient accounts, pledge receivables, and self-insurance (medical malpractice, workers compensation, and health insurance), as well as estimated amounts due to and from third party payers to UK HealthCare. They were comfortable with these estimates. She shared certain financial statement disclosures, which included disclosure for self-insurance reserves; revenue recognition for UK HealthCare; combined condensed statements and disclosures on the other post-employment benefit plan; and the long-term disability plan. BKD noted no required audit adjustments.

Ms. McKinley also shared the proactive approach in which the University and BKD were working for preparation of next year's audit.

E. Report on BKD Agreed-Upon Procedures Report

Susan Krauss, University of Kentucky Treasurer discussed BKD's agreed-upon procedures (AUP) reports related to the Intercollegiate Athletics Program, Kentucky Medical Services Foundation, and Eastern State Hospital/Central Kentucky Recovery Center. These reports were prepared at the University's request.

Ms. Krauss first discussed the Intercollegiate Athletics Program AUP as required by National Collegiate Athletic Association (NCAA) by-laws. This review is performed to verify the accuracy and completeness of financial data prior to submission to the NCAA. The review found no items of concern. The final report submitted to the NCAA will be provided to the Athletics Committee at the February 2019 meeting.

Ms. Krauss then discussed the AUP report related to the Kentucky Medical Services Foundation. This review is part of the ongoing monitoring of the University and Kentucky Medical Services Foundation contract, which assesses various compliance items between the University and Kentucky Medical Services Foundation. There were no significant items of concern.

Ms. Krauss concluded with a discussion of the AUP report to review contract compliance between the University and the Kentucky Department of Behavioral Health, Developmental, and Intellectual Disabilities for the management of Eastern State Hospital and the Central Kentucky Recovery Center. There were no items of concern.

F. Report on University of Kentucky Internal Audit Time Allocation and Benchmarking

Mr. Reed, University of Kentucky Chief Audit Executive (CAE) reviewed University of Kentucky Internal Audit's (UKIA) Fiscal Year 2019 year-to-date allocation of resources and functions. He discussed UKIA's time allocation among the University's six Enterprise Divisions: 1) Academics, 2) Affiliates, 3) Campus Operations, 4) Finance and Administration, 5) University of Kentucky Administration, and 6) University of Kentucky HealthCare. Mr. Reed then reviewed UKIA's work time allocation trends from 2016-2018, pointing out that approximately 24 to 30 percent of UKIA's time and resources were allocated to each of these entities: University of Kentucky HealthCare, Academics, and Finance and Administration.

Mr. Reed then focused on a benchmarking comparison of UKIA's financial and staffing budget against the other 13 Southeastern Conference (SEC) Universities.

Mr. Reed then explained that the benchmarking comparison of UKIA's budget and staff to those of other SEC universities showed that, while UKIA has the fourth largest budget in the SEC among internal audit departments, UKIA's budget as a percentage of the University's overall budgets is relatively small, comprising just .05 percent of UK's overall budget. Other SEC internal audit departments' budgets ranged from .04 to .11 percent of their University budgets. Additionally, UKIA's ratio of both students to auditors and employees to auditors are quite low, as there is just one auditor for every 2,137 students and one auditor for every 2,071 employees. Comparatively, the University of Florida internal audit department had the lowest ratio of auditors to employees, with one auditor for every 2,588 employees, while the University of Mississippi had the highest ratio, with one auditor for every 493 employees. The University of Missouri system had the lowest ratio of auditors to students, with one auditor for every 7,599 students, while Vanderbilt University had the highest ratio, with one auditor for every 1,250 students.

UKIA has a total of 18 staff members with four members considered non-auditors. These non-auditors enable the auditor staff to focus on providing the University with increased audit support. Mr. Reed pointed out that no other SEC University had a similar makeup, which sets UKIA apart from the rest.

Trustee Lee Blonder asked if UKIA was understaffed. Mr. Reed explained our current staffing level was at an acceptable level to meet current University needs, enabling flexibility.

G. Report on University of Kentucky Internal Audit Fiscal Year 2019 Second Quarter

Mr. Reed reviewed the Approved Fiscal Year 2019 Second Quarter Work Plan providing an overview of the types of services offered and the audit projects which will be carrying forward. He explained that the work plan is grouped by sections 1) Compliance Program, 2) Business Operations, 3) Information Technology, and 4) Continuous Activities.

Mr. Reed provided a review of UKIA's University Collaboration. He explained that one of the ways UKIA continues to support its clients is to return within 60-120 days after an audit has been completed. Additionally, UKIA performs follow-up audits which ensures that the original concerns have been remediated.

Mr. Reed concluded the Fiscal Year 2019 Second Quarter Activity by providing the Board with insight into non-audit activity conducted by UKIA. He shared with the Committee the Fraud Training classes offered to University employees, as well as UKIA Partnerships, which have been established throughout the University. Mr. Reed pointed out that feedback received from these classes and these partnerships, together with the collaborations built, enable UKIA to be an integral part of University operations.

H. Report on University of Kentucky Internal Audit Fiscal Year 2019 Third Quarter Dynamic Work Plan

Mr. Reed reviewed the audit activity carried forward from the Second Quarter to the Third Quarter of Fiscal Year 2019. He explained that carry-forward activity is comprised of assignments not completed during the previous quarter and for which completion is expected in the current quarter.

Mr. Reed discussed the new method UKIA will use to create the work plan. UKIA has developed a data management program named 'Audit Universe', where risks will be associated with an Application, Unit or Process. He shared with the ACC that this management program as well the methods of identifying risk will be reviewed in detail at the May 2019. Mr. Reed concluded with a synopsis of the Proposed Third Quarter Fiscal Year 2019 Work Plan, brought forward for approval.

Chair Berry introduced ACC 1, UKIA's Third Quarter Work Plan for approval. A motion was made by Trustee Barber and seconded by Trustee Edwards. The motion carried.

I. Report on Proposed Audit and Compliance Committee Charter Revisions

Mr. Reed explained that the Charter was last updated in 2016. UKIA updated the charter for clarity and Committee structure. Changes specific to the structure were the number of Board members needed for a quorum and the calculations of a quorum. Mr. Reed detailed the proposed revisions and stated that approval of the Charter will be requested at the February meeting.

J. Report on Proposed Internal Audit Charter Revisions

Mr. Reed reviewed the proposed UKIA Charter revisions. Mr. Reed reviewed the updates for professional standard changes and stated that the charter will be brought forward for approval at the February meeting.

K. Adjournment

With no further business Chair Berry asked for a motion to adjourn. Motion made by Trustee Barber and seconded by Trustee Hawpe. The motion carried, and the meeting was adjourned at 10:13 a.m.