

BETTER TOGETHER



Internal Audit

FY2019 ANNUAL REPORT

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MISSION STATEMENT

To support UK in its pursuit of excellence by providing expert analyses and advice to champion the achievement of management objectives.

TRAINING & TEAM-BUILDING

When your focus is providing assurance to the University, it is essential to stay up to date on regulatory changes and understand University policies and procedures. Equally important is learning about new auditing programs and practices so that we can build on our services and provide added value to the University. Consequently, UKIA puts a heavy emphasis on continuous training for the audit staff. All members maintain high levels of knowledge, not only regarding the University, but on trends and emerging risks for higher education across the nation. That's why UKIA requires each auditor to attend 40-60 hours of training annually, such as those offered through the College Business Management Institute, the Association of College and University Auditors, the Institute of Internal Auditors, and the Southern Association of College and University Business Officers.

It's also why, for the past five years, UKIA has hosted the Kentucky College and University Auditors Meeting. This year, more than 30 audit personnel from across the state met to network and exchange ideas regarding current risks in higher education and trends in auditing to better address those risks.

Additionally, throughout the year, UKIA offers workshops and seminars through UK's Human Resources Training and Development Program to assist University staff in understanding common fraud risks and the importance of following University procedures. In 2019, UKIA staff have led both fraud and advanced fraud classes.

As audits are a collaborative process, the ability to work well together as a team is critical. For this reason, UKIA holds at least two team-building events each year. In December 2018, the staff celebrated the holiday season with a team-building exercise followed by lunch at Malone's. In June 2019, the team got out of the office for a few friendly — albeit competitive — rounds of bowling, laser tag, and go-kart racing at Malibu Jack's.



UKIA'S INTERN PROGRAM

SHARING THE KNOWLEDGE



Summer 2019 Intern - Lara Duran

Since it was first established in 2008, UKIA's internship program has allowed qualifying students not only to practice what they learned from classes, but also to gain experience working in a professional environment, acquire valuable skills, and expand their network. However, the students are not the only ones who benefit from this program. Soon after the program was incorporated, UKIA staff recognized the value of the interns' additional assistance, fresh perspective, and coachability, along with the opportunity for staff members to cultivate their leadership and organizational skills.

Initially, the program sought students interested in the audit profession. However, due to the program's many advantages, UKIA staff decided to expand it to add information technology (IT) and communications interns in the Spring semester of 2018. Since then, three communications and two IT interns have participated in the program. One of these IT interns joined UKIA's professional staff in September 2018 as the Data Coordinator Specialist.

After seeing the success from the Spring 2018 interns, UKIA staff also decided to recruit paid summer interns that year. There were two interns in the Summer of 2018 with majors related to

communications, as well as finance and another communications major during Summer 2019. In addition, this year, a team of UK students from a 500-level internal audit class, taught by Urton Anderson, worked with UKIA on a ProCard audit where they saw the process through from start to finish, including planning, fieldwork, interviews, and reporting.

"It's been a great learning experience" explained Lara Duran, the summer 2019 communications intern. "I got to learn about the audit process by watching the staff interact with one another, editing presentations, writing announcement letters, and attending a closing meeting. I gained insight on how people work together in a professional office environment and I've been able to apply skills I learned in the classroom to work on projects and assignments."

The projects not only provide the interns with valuable experience but also aid UKIA in meeting its goals. These responsibilities include:

- Pre-planning research and analytics for a compliance audit.
- Identifying inventory process weaknesses and proposing improvement strategies for an inventory audit.

- Reviewing planning documents and participating in interviews for an IT audit.
- Creating an access database to help UKIA track the access our staff members have to various databases across campus.
- Interviewing and analyzing chief business process challenges in units of varying sizes for a joint project with University Financial Services and Purchasing.
- Communicating the results of follow-up audits.
- Categorizing information from various sources to help populate UKIA's risk database.

"It's always interesting to learn the interns' perspective on how the book-work they have learned in class differs from the work they are actually doing in the office," explained Joe Reed, UKIA Chief Audit Executive. "We are glad to have the opportunity to give students this real-world experience while benefitting ourselves from the hard work, dedication, and enthusiasm that UK students bring to the table."

UKIA posts its intern positions on Handshake in late fall. If you know a student who may be interested in working at UKIA, please refer them to <https://app.joinhandshake.com/jobs>.

UKIA METRICS

Quantifying Efficiency

UKIA uses several metrics to measure the efficiency of its auditing procedures. In 2019, a few changes were made to the way some of the metrics, like remediations, were calculated. These changes aim to provide UKIA with more accurate and insightful feedback that allows the staff to improve methods. As UKIA continues to better itself, word of Internal Audit's assistance is spreading, and more units are requesting UKIA's services.

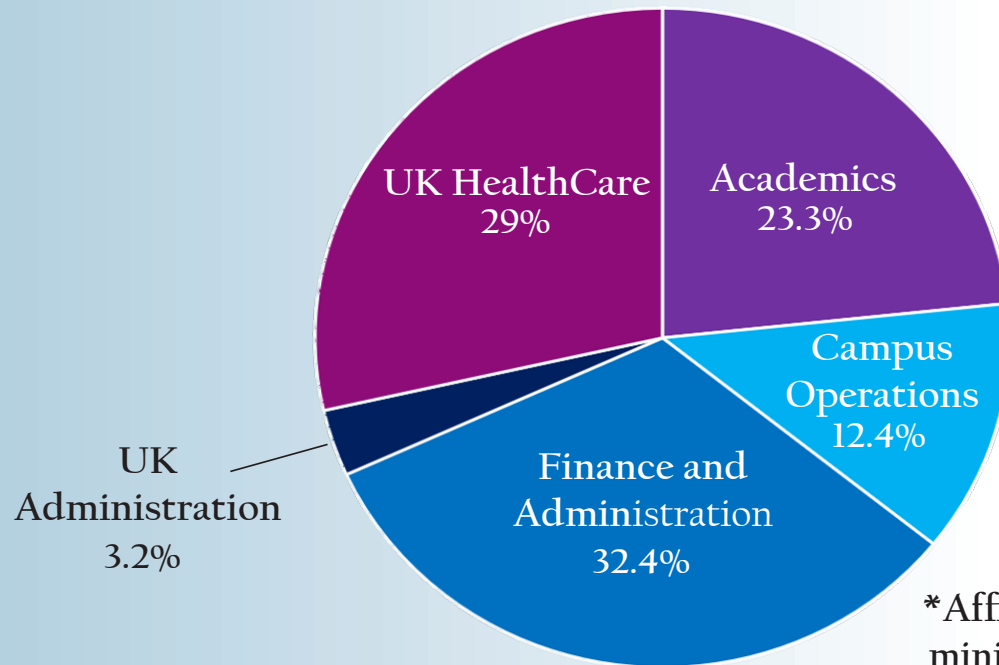
85%

The percentage of charged hours that staff members spent on constructive work for UKIA.



Of that, 78.4% was devoted directly to audit projects.

UKIA DEVOTED 15,984 HOURS TO AUDITS



* Affiliates had minimal hours

3

The number of comprehensive reviews completed by UKIA in 2019.



The average number of weeks spent completing the comprehensive reviews.

43



4

The number of investigations conducted by UKIA in 2019.



The average number of weeks spent conducting each investigation.

29.4

6

The number of repetitive audits conducted by UKIA in 2019 to verify compliance with federal, state, and University regulations.

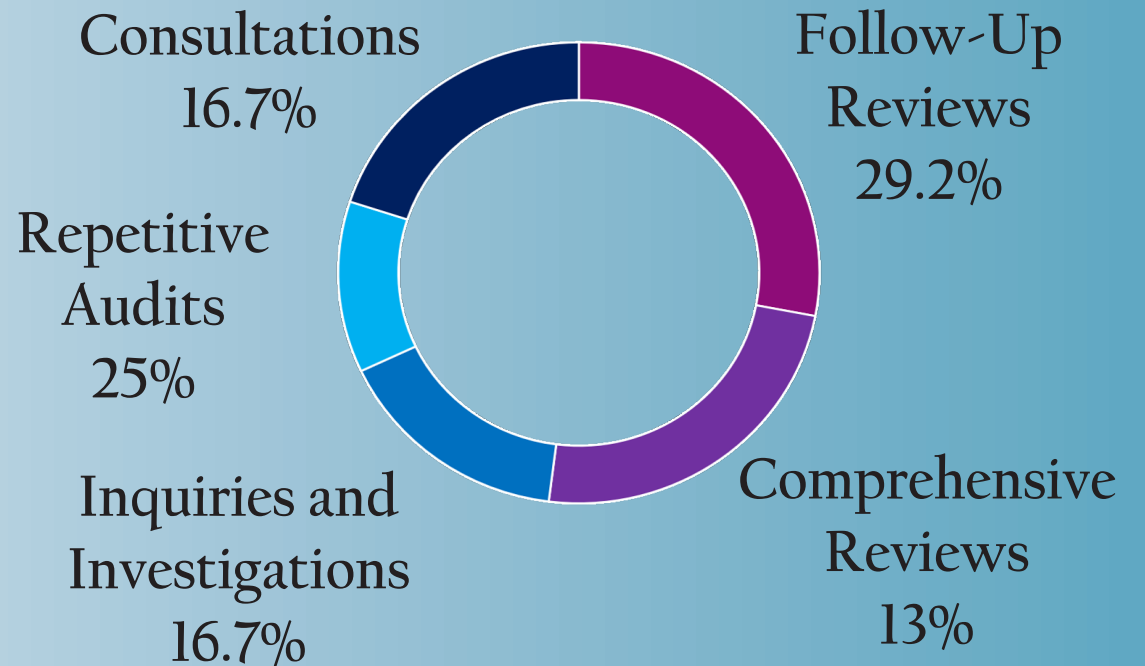
The number of follow-up reviews completed by UKIA in 2019.

7

16.1

The average number of weeks spent conducting repetitive and follow-up reviews.

AUDITS COMPLETED



Quantifying Effectiveness

39

The number of departments outside of planned activity that contacted UKIA in 2019 to request assistance. This increase, up from 34 last year and only 18 the year before, conveys how UK departments are becoming more aware of the advantages of UKIA's services. As more departments seek auditing services, UKIA continues to fulfill its goal to support UK in its pursuit of excellence.



6

UKIA's averaged six monthly collaborations with other units to work on non-audit projects. This year's partnerships exceeded the goal of four, revealing UKIA's commitment to developing relationships with other UK units.

Some of UKIA's partnerships include:

- Business Operations
- Training Transformation
- College of Medicine Expansion Project
- Business Survey Results
- University Financial Services/ Purchasing
- University Human resources

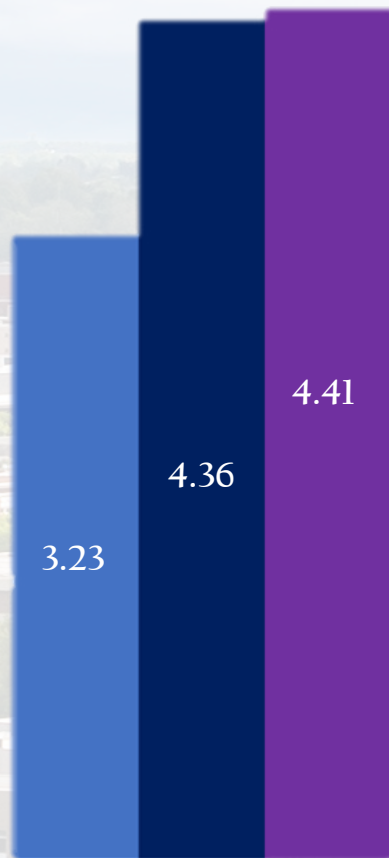


11

UKIA staff members taught 11 classes and seminars to facilitate awareness and coach attendees on a variety of topics. This year, the workshops consisted of:

- Fraud
- Advanced Fraud
- Business
- Student and Academic Life
- Kentucky Auditors Meeting

Every year, UKIA asks its clients, partners, and training participants to fill out satisfaction surveys. These surveys are used to inform staff members on how well they are doing and how they can improve in their interaction with external personnel. The satisfaction surveys are measured on a scale of 1-5, and UKIA's goal is a score of 3 or above. The results of the surveys are as follows:



- Audit Client Satisfaction Survey Average Score
- Partner Client Satisfaction Survey Average Score
- Training Participants Satisfaction Survey Average Score

PERCENT OF FINDINGS THAT WERE MITIGATED BY UKIA'S CLIENTS PRIOR TO THE FOLLOW-UP*

65.6%

* Previously, this metric only measured the percentage of recommendations accepted. UKIA has changed the way remediation is calculated to instead capture how many of UKIA's recommendations were implemented by its clients. This gives UKIA insight into the level of risk mitigation throughout the University and the value placed on UKIA's work by its clients.

This metric is now calculated by ranking the mitigation on the following scale:

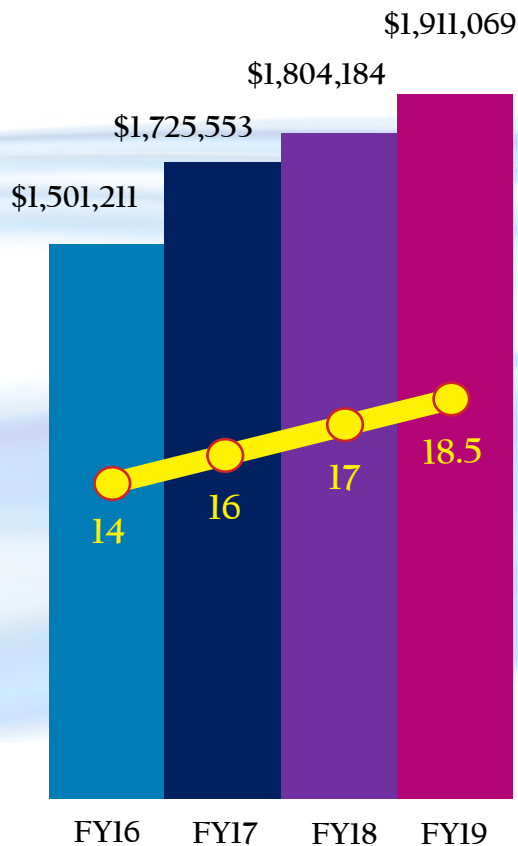
- 3 = Satisfactory (S)
- 2 = Partially Satisfactory (PS)
- 0 = Unsatisfactory (U)

The ranking number is then multiplied by the number of findings with that score, and the results are then added together. The remediation score is that sum divided by the highest possible sum (found by using 3 as the rating number for all the findings).

$$\frac{3(\# \text{ of S findings}) + 2(\# \text{ of PS findings}) + 0(\# \text{ of U findings})}{3(\text{total } \# \text{ of findings})}$$

FY2019 BUDGET

BUDGET VARIANCE FY2016-FY2019



Number of Employees

UKIA’s annual budget in FY2019 was more than \$1.9 million. The budget has been on a steady increase since FY2016, predominantly due to the need for additional staff to expand UKIA’s capabilities in response to emerging risks and to enable a more proactive, timely, and effective review process.

In FY2019, UKIA added 1.5 FTEs in new positions, and hired two business audit consultants, two new IT audit consultants, a quality assurance coordinator, who is responsible for data mining and metrics, as well as a data coordinator specialist, who manages UKIA’s database repository and maintains risk assessment documents. A part-time editorial assistant joined UKIA in January 2019 to assist the external liaison in communicating audit results, recommendations, and other audit activities to University personnel in various formats.

These new positions have not only enabled the audit consultants to complete more reviews, but they have made UKIA more nimble, enabling us to identify, trend, communicate, and mitigate risks that would have previously been deemed “out of scope” and held for a future review.

FY2019 BUDGET	
Category	Budget
Personnel	\$1,725,069
Travel	\$40,000
Operations	\$146,000
TOTAL	\$1,911,069

STRATEGIC PLAN UPDATE

As technology evolves, new regulations are passed, and UK seeks innovative ways to accomplish more with its finite resources, new risks emerge, and internal audit departments must adapt its processes to stay ahead of them. Accordingly, over the last few years, UKIA has made significant changes to its tactics to become more proactive, responsive, and effective.

Translating Knowledge to Action

Today, UKIA is taking on more of an analytical role with each review, as the focus has shifted from mere findings to root cause analysis, and from management responses that indicate acceptance of the results to requiring detailed management action plans that detail how management intends to achieve long term risk remediation and ensure alignment with the University's overall Strategic Plan. UKIA also has begun trending the audit results, which has yielded tremendous insight into what programs are working and where opportunities for improvement exist.

Deploying Resources Smartly

Fully addressing the risks at this level necessitates a different kind of staff, and UKIA has achieved that in a number of ways. UKIA's auditors boast a variety of skills with backgrounds in construction, healthcare, accounting, project management, and information technology. The infrastructure staff have backgrounds in information systems, data management, writing, and public relations. This specialized staff also has been reorganized into dedicated teams to more efficiently address the evolving risks across the entire enterprise (see sidebar). With an

Audit Universe that enables UKIA to trend and cross-reference all known risks to the University, combined with UKIA's flexible work prioritization process, these resources can be more nimbly deployed to mitigate emerging risks before they become an issue.

Establishing Productive Partnerships

UKIA has parlayed that information into valuable partnerships with University process owners. Accordingly, UKIA is working hand in hand with University Financial Services, the University Budget Office, the Office of Corporate Compliance, UK HealthCare Finance, UK Information Technology Services and UK HealthCare Information Technology Services, to collaborate on effective business improvements that will yield long-term operational enhancements for the University.

Looking to the Future

As UKIA looks to the future, it will be laser-focused on raising the level of risk mitigation from its current 65 percent to 100 percent. Staff will become more efficient, enabling more audits to be completed in less time, achieving even higher risk mitigation. Moreover, the open lines of communication we are creating through the partnerships we are nurturing now will pay dividends by allowing UKIA to tackle minor concerns before they become major issues with long-lasting ramifications.

FOCUSED RESOURCES

The risk hierarchy in UKIA's Audit Universe organizes UK's risk exposure into six risk factors with 20 components. UKIA's risk assessment shows that the following areas have significantly higher levels of risk for three of these components – regulatory compliance, data breaches, and public exposure:

1. UK HealthCare
2. Research
3. The County Extension Services of the College of Agriculture, Food, and Environment (CAFE)

When the percent of UK's budget (1 and 2) and/or the lack of UK-direct supervision (3) are taken into account, these risks are even more significant. Consequently, UKIA devoted significant resources to these three areas in 2019, with two audit consultants focused solely on UK HealthCare endeavors.

UKIA AUDIT TEAMS

WORKING COLLECTIVELY

Teamwork is a fundamental aspect of working at UKIA. In fact, staff members are often expected to tackle projects in groups, allowing them to use their unique skills collectively to ensure all risks are properly addressed and recommendations will provide effective mitigation. Each of the teams serves unique functions that are critical to UKIA's mission:

Infrastructure Team:

UKIA counts on the Infrastructure team to provide administrative and staff support by updating processes, responding to data requests, and serving on various committees. This team is comprised of several subgroups which support the audit staff in different ways:

Quality: The Quality group is responsible for maintaining UKIA's work prioritization. This includes the Audit Universe, categorizing and inputting information, documenting standards for database functions, and generating database reports. This group also is responsible for verifying data accuracy, data mining, and metrics.



Administrative Support: The business liaison is responsible for UKIA's business operations, including procurement, budgeting, payroll, and human resources activities.

Communications: The Communications groups are responsible for providing effective, concise, and visually appealing written communications, including audit reports, opening and closing presentations, announcement letters, and memorandums, as well as developing website content and publicity materials.

IT Team:

Members of this team conduct IT audit activity focused on IT governance, management (operations), access controls, and associated regulatory adherence. They are responsible for identifying and detecting vulnerabilities, evaluating general physical and logical controls, and ensuring operational efficiency and information security, along with following best-practice standards by reviewing IT management policies and procedures such as change management, business continuity, and disaster recovery.



Business Team:

The Business team reviews business operations, financial activity, and regulatory compliance of units across the University. Team members assess process improvements, strategic alignment, and financial reliability while complying with audit methodology and risk management. In addition, the business team is responsible for identifying opportunities for enhancing a unit's internal efficiency and effectiveness.



Investigations/Special Projects Team:

The Investigations and Special Projects team examines events that may have led to a monetary or physical loss to the University. This team's role is to accurately document the event and determine whether a review of the condition is necessary. UKIA ensures that the appropriate units within the University, including Human Resources, Legal, IT and UK Police, have knowledge of these investigations so they can take suitable action.





INTERNAL AUDIT SERVICES

DATA MINING

Analyzes large and complex data sets to determine exceptions or detect anomalies based on specific criteria.

IT REVIEWS

Evaluate the quality of the controls and safeguards over the University's IT resources.

FOLLOW-UP REVIEWS

Assess the progress that has been made remediating the concerns noted in the initial audit.

COMPREHENSIVE REVIEWS

Ensure compliance with applicable laws and regulations, the integrity of financial reporting, the safeguarding of assets, and operational efficiency and effectiveness.

CONSULTATIONS

Gauge the unit's existing or new departmental activities and processes to ascertain opportunities for improvement (performed at the request of a unit's management).

INQUIRIES AND INVESTIGATIONS

Examine events that may have led to a monetary or physical loss to the University. Investigations develop from various sources, including tips (comply line, calls to UKIA), auditor observations, and UK Police reports.

ASSESSMENT REVIEWS

Provide a thorough appraisal of the critical operational, finance, and IT processes within a unit with multiple departments to identify potential risks.

REPETITIVE AUDITING PROGRAMS

Examine areas of high risk for non-compliance with federal regulations, such as the Fair Labor Standards Act. These programs also support the detection of fraudulent activity at the individual employee level.

TRAINING

Provide workshops and seminars through UK's Human Resources Training and Development Program.



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