Minutes of the Audit and Compliance Committee Meeting
University of Kentucky
Friday, June 21, 2019

The Audit and Compliance Committee (ACC) of the University of Kentucky (UK) met on Friday, June 21, 2019, in the Lewis Honors College, 1120 University Drive, Lexington, Kentucky.

A.   Meeting Opened

Chair Claude "Skip" Berry III called the meeting to order at 9:02 am.

B.   Roll Call

The following members of the ACC answered the call of the roll: Claude "Skip" Berry III, Jennifer Barber, James Booth, Angela Edwards, David Hawpe, and Elizabeth McCoy.

C.   Approval of Minutes

Chair Claude "Skip" Berry III reported that the minutes of the April 30, 2019, ACC meeting had been distributed. Trustee Booth moved for approval of the minutes and Trustee McCoy seconded the motion. The minutes from the April 30, 2019 ACC meeting were approved as presented.

D.   University of Kentucky Internal Audit Quality Assurance Program

Martin Anibaba, University of Kentucky Internal Audit Director, presented the University of Kentucky Internal Audit (UKIA) Quality Assurance Program. Mr. Anibaba began by reviewing the UKIA Charter which defines the purpose, authority, and responsibility of the unit. He elaborated on UKIA's responsibility including audit prioritization, progress reports to the ACC, UKIA's final reports, collaborations, internal quality assurance, and the annual review of the UKIA Charter. He then reviewed the systematic monitoring of UKIA operations to ensure compliance with acceptable standards of the Institute of Internal Auditors (IIA). Mr. Anibaba then explained the ways that UKIA monitors its operations, which includes internal assessments such as auditor productivity, audit duration, and client survey results.

Mr. Anibaba then described the three elements of UKIA's Quality Assurance Program including: the continuous improvement initiative, the governance model, and the quality assessment review. He explained that the governance model provides the framework necessary to guide UKIA's operations. UKIA's governance process includes the UKIA Charter; IIA Code of Ethics; UK Ethical Principles and Code of Conduct; the auditor's independence and responsibility statement; and UKIA's administrative and process manuals. Mr. Anibaba elaborated on the governance process and reviewed the improvement program that UKIA has implemented which works to ensure UKIA's conformance with the IIA Standards through requisite skillsets for the auditors, including: knowledge, skills, and other competencies; demonstration of due professional care; and the requirement that each auditor continually strengthens their knowledge by participating in a minimum 40 hours of professional training each year. He discussed other methods UKIA has incorporated to ensure the conformance with the IIA internal audit

requirements such as: standardization of workpaper templates, workflow management, weekly project prioritization meetings, data visualization and analysis, and both department and individual metrics. He then explained UKIA's regular process updates which are reviewed with the UKIA team on a regular basis. He stressed the fact that UKIA relies on processes and not one person. He then discussed UKIA's internal structure, work prioritization, audit operations, and communications. Additionally, he spoke of UKIA's four distinct matter-based committees: Health Care, Infrastructure, Audit Universe, and Information Technology.

Mr. Anibaba then described the Quality Assessment Review (QAR), a professional assessment required by the IIA every five years. The review itself incorporates internal as well as objective external assessments. The results of these reviews are communicated to Senior management and the Board of Trustees. He then provided the Committee with a history of UKIA's assessments. UKIA's first objective external assessment (QAR), which occurred in 2009, identified areas of improvement. The following QAR (2014) noted significant improvement. The 2020 QAR is expected to show even greater improvement.

He concluded his presentation with an overview of the Internal Audit Industry Process Maturity Model, which is a measuring tool for the Internal Audit Assessment rating. This model identifies the five categories of an Internal Audit Process and measures the level of maturity for each category within the unit. Mr. Anibaba shared the five categories of the Internal Audit Process, which are: 1) Policy, 2) Methodology and Process, 3) People, 4) Systems and Information, and 5) Communication and Reporting. The maturity levels for each are identified as Initial, Repeatable, Defined, Quantitatively Managed, and Optimized. Mr. Anibaba explained that UKIA's maturity level for each category is "Quantitatively Managed" for each category except "People," which was rated as "Defined." He explained that while UKIA can respond effectively to a variety of needs across the campus due to our highly skilled and credentialed staff, UKIA is also experiencing turnover. However, as positions are filled, and the new auditors gain experience, UKIA expects to elevate this maturity level to "Managed" as well as increase many of the remaining process ratings to "Optimized." Mr. Anibaba concluded his presentation providing an opportunity for questions from the ACC.

Trustee Shuffett asked, "When UKIA thinks fraud is occurring, how is it handled?"

Mr. Anibaba explained that UKIA auditors keep fraud in the back of their minds during every audit. He explained that, if potential fraud is identified, UKIA's dedicated Inquiries and Investigations team will begin conducting a review in the background. He explained that these investigative activities are not shared with the clients at that time. If fraud is determined to have occurred, an investigative audit will be opened.

Trustee Brockman lauded the growth of UKIA, the change in status of the Audit and Compliance Committee from a sub-committee to a full committee, and the increase in attendance at the meetings. He stated that he feels audit is the most important committee and that it excites him to see the professionalism that UKIA displays. He then asked if the "People" category was rated lower in the Internal Audit Process due to the need for additional resources.

Mr. Anibaba responded by sharing how UKIA had grown over the years, from five auditors to the current audit staff of 11. He reiterated that as current auditors' knowledge and experience increase, UKIA's Internal Audit Process rating of "People" would increase to the "Managed" level.

Chair Berry complimented UKIA on its well-analyzed and informative presentation.

E.   University of Kentucky Internal Audit Fiscal Year 2020 Work Plan Prioritization Program

Joe Reed, University of Kentucky Chief Audit Executive, discussed UKIA's Fiscal Year 2020 Work Plan Prioritization Program. Mr. Reed recognized Ms. Marianne Bush, the person instrumental in UKIA's Quality Program. Mr. Reed then quoted from *Management Information Systems Training Institute* and the *Institute of Internal Auditors (IIA)* website, both of which attest to the fact that "modern, cutting edge' internal auditing is risk-based." These quotes directly support the direction UKIA is taking. Mr. Reed reviewed the evolution of UKIA, beginning in 1958, when UKIA worked from an Annual Work Plan, to today when its work is driven by a dynamic, risk-based Work Prioritization Program.

Mr. Reed then briefly reviewed UKIA's new Audit Universe, which was first introduced at the April meeting. He reminded the ACC of the Audit Universe process from receipt of information through the deliverable stage and explained that it is at this point that the risk assessment occurs, followed by the project selection. He discussed the critical method of risk rating assignment, which is the point at which the work prioritization plan occurs. Mr. Reed shared the six risk factor categories assigned to information: Public Exposure, Materiality, Control Environment I and II, External Factors, and Audit Duration. Each piece of information is first categorized into one of these factors. He shared an example that information dealing with current affairs would be assigned to the risk factor 'Public Exposure,' then rated based on the level of public awareness. He explained that, if the public's awareness is high (national versa local), the risk rating would increase. He then gave another scenario of a regulation, which would be assigned to 'External Factors' then rated based on the impact to the University. He went on to discuss Information Technology; culture and practices; and the rating of applications in the data centers where system criticality would increase the risk to the University. He then provided examples of the remaining three risk factors.

Mr. Reed then discussed the risk assessment and provided examples of the top 10 Processes, Units, and Applications UKIA will be focused on for this coming year. The Processes include Contract Management, the Family Educational Rights and Privacy Act (FERPA), the Health Insurance Portability and Accountability Act (HIPAA), Conflicts of Interest, Regulatory Compliance, Student Fees, Agency Accounts, Cash Handling, Deprovisioning, and ProCard. The Units to be looked at include the Alumni Associations, Shared Services, Service Centers, 501 (c)(3) entities, those units required by Kentucky Revised Statutes (KRS), and Academic Units. As examples of applications to be reviewed, he listed in-house applications, server configuration, and unit applications. Mr. Reed explained that, within UKIA's nine service types, each objective is considered a general objective until further planning and research occurs, at which time specific objectives are identified and the project scope is determined.

Mr. Reed stressed that, with its new risk-based approach, UKIA no longer waits for issues to bubble up, but works to offset issues that may place the University at risk. Mr. Reed stated that

UKIA is able to provide a risk assessment and, in addition to using this information to rate concerns, can share this information with the areas responsible for the process. As an example, UKIA meets regularly with the chief information officers and other University Executive Management to better understand the current information technology environment and activities.

Mr. Reed concluded his presentation with a review of UKIA's Fiscal Year 2020 Work Plan Prioritization. He stated that basically, the current work was made up of Follow-Up Activity as well as unplanned activity (comply line calls, direct UKIA contact, or expanded scope), as there is no longer planned activity due to its replacement with Risk-Based Audit activity. He then opened the floor up for questions.

Trustee Christian stated he is concerned with all the exponential growth of information that's available, and asked how many auditors does UKIA have on staff, and is there still a growing need? Mr. Reed shared that, including Director Anibaba, UKIA has four Information Technology personnel with one vacancy. He emphasized that UKIA does have ample resources, it's just difficult to find the right skill set to fill the Information Technology vacant position.

Trustee Blonder asked if, due to the number of entities and academic units UKIA supports, does UKIA have someone in the office that is responsible for studying all the administrative governing regulations? Mr. Reed responded that yes, UKIA has two staff members who are part of the infrastructure team who are responsible for staying apprised of these regulations and ensure that this information is entered in the Audit Universe.

Trustee Brockman asked Mr. Reed how UKIA interacts with University of Kentucky HealthCare (UKHC), as the scope of their audits are comprised of charts and patient audits, etcetera, which is way beyond the scope of what UKIA audits. He also asked if UKIA ensures that audits are occurring on the UKHC side. Mr. Reed stated that UKIA has not reached that level of audits. Mr. Reed shared that he and UKHC Senior Leadership meet regularly to discuss current activities and issues such as: interactions between UKIA and UKHC, what is on UKIA's agenda, and current risks. Mr. Reed did state that UKHC has a consistent presence at the ACC. Mr. Reed continued to discuss the consistent effort UKIA spends working with the process owner to ensure they receive adequate coverage, adding that UKIA provides reasonable assurance within each area.
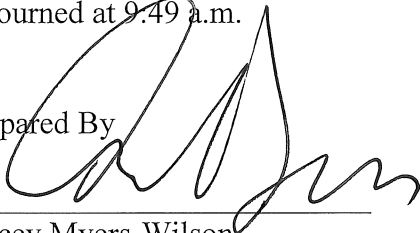
Trustee Brockman confirmed that UKIA works closely with UKHC and they are aware of what is and is not happening. Trustee Brockman said he has no reason or suspicion that anything other than the best practices are occurring. Mr. Reed agreed.

Chair Berry then introduced ACC 1 - Approval of UKIA Fiscal Year 2020 Work Plan Prioritization Program. The motion was made by Trustee Barber and seconded by Trustee Edwards. It passed unanimously.

F.   Adjournment

With no further business, Chair Berry asked for a motion to adjourn. The motion was made by Trustee Barber and seconded by Trustee Edwards. The motion carried, and the meeting was adjourned at 9:49 a.m.

Prepared By

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Stacey Myers-Wilson
Audit Manager