

Meeting Minutes of the Audit and Compliance  
Committee University of Kentucky  
Monday, December 14, 2020

The Audit and Compliance Committee (ACC) of the University of Kentucky Board of Trustees met on Monday, December 14, 2020, via Zoom Webinar.

I. Call to Order

Chair Claude “Skip” Berry III called the meeting to order at 1:02 p.m.

II. Roll Call

The following members of the ACC were in attendance: Claude “Skip” Berry III, Joe Bowen, Michael Christian, Kimberly McCann, Elizabeth McCoy, Paula Pope, Derrick Ramsey, Sandra Shuffett and Bryan Sunderland.

III. Approval of Minutes

Chair Berry reported that the minutes of the September 10, 2020 ACC meeting had been distributed. Trustee McCoy moved for approval of the minutes, and Trustee McCann seconded the motion. The minutes from the September 10, 2020 ACC meeting were approved as presented.

IV. Reports and Discussion Items

A. Report on Fiscal Year (FY) 2019-20 External Audit

Mary McKinley, partner at Baird, Kurtz and Dobson (BKD), and Joanie Duckworth, director with BKD, reported on the audit results for FY 2019-20. The audit included three portions – financial statements, internal controls over financial reporting, and testing over the federal funding that is received and expended by the university annually.

Ms. McKinley stated that, due to the COVID-19 environment, the Coronavirus Aid, Relief and Economic Security (CARES) act funding from the government had not been settled, therefore that portion of the engagement was delayed.

Ms. McKinley stated regarding the audit focus that the university carries an unmodified, clean opinion and that the auditor’s responsibility is to provide reasonable assurance on the financial statements, establish a scope to develop testing of line items and the transactions within those financial statements.

Ms. McKinley also stated that, due to the COVID-19 environment, BKD changed its timing and processes to test alternative investments. She then highlighted some of the financial statement disclosures, such as self-insurance liabilities, UK HealthCare revenue recognition, combined condensed financial statements, post-employee benefit plans and long-term disability plans. Finally, Ms. McKinley stated that there were no new

pronouncements or additional changes within the financial statements.

Ms. McKinley then introduced Ms. Duckworth to discuss the audit adjustment section. Ms. Duckworth stated that there were three proposed audit adjustments in 2020 for the university. These included reclassifications of bond premiums, unamortized bond premiums and expenses for the student portion of the CARES act funding. She also stated that they examined internal controls over financial reporting to determine audit procedures from which no noted deficiencies or weaknesses were reported for the university. Finally, Ms. Duckworth stated that there were several new accounting pronouncements were identified that have been delayed due to the COVID-19 environment.

#### B. BKD Agreed-Upon Procedures Report

Chair Berry introduced Penny Cox, treasurer, to report on BKD's agreed-upon procedures. Firstly, Ms. Cox discussed the National Collegiate Athletic Association (NCAA) agreed-upon procedures which are in accordance with NCAA bylaws, and require that an independent accountant verify the accuracy and completeness of the financial data of UK's Department of Intercollegiate Athletics. The financial data tested by BKD includes the statement of revenue and expenses.

Secondly, Ms. Cox discussed the Kentucky Medical Services Foundation (KMSF) agreed-upon procedures to assess compliance between the university and KMSF. The procedures were agreed upon by the representatives of the two entities. No significant items of concern were noted in the report.

The third agreed-upon procedures report was for Eastern State Hospital and Central Kentucky Recovery Center which sets forth the procedures to review compliance with the state contract for the management of Eastern State Hospital and Central Kentucky Recovery Center. No items of concern were noted.

#### C. University of Kentucky Internal Audit (UKIA) FY 2020-21 First and Second Quarters Activity Update

Chair Berry introduced Joe Reed, chief accountability officer and audit executive, to apprise the committee of UKIA's activity during the first and second quarters of FY 2020-21. Mr. Reed began by discussing UKIA's work prioritization plan which is broken into three categories – 12 processes, six units and six information systems. He then discussed UKIA's unplanned activity which included follow-ups that have to be completed per UKIA standards; inquiries that come from the university comply line, first-hand accounts and the UKIA website; and finally other activities, which include committee membership, partnerships and taskforce participation.

Mr. Reed then discussed the six business risk factors and 20 components that serve to quantify and provide direction for UKIA's work prioritization. He then went over UKIA's completed activities which included two comprehensive reviews, one repetitive audit and four inquiries/investigations. Mr. Reed then shared UKIA's active reviews, which included

eight comprehensive reviews, one consultation, one data analytics review, one follow-up, one information technology review and eight inquiries/investigations.

D. Quality Assessment Review Update and Conformance with Code of Ethics and Standards

Chair Berry then introduced Martin Anibaba, UKIA's audit director, to discuss UKIA's quality assessment review and conformance with the code of ethics and standards. Mr. Anibaba presented the objectives of the external quality assessment review (QAR) which included an assessment of UKIA's conformance with the international standards and Institute of Internal Auditors (IIA) Code of Ethics. The objectives were also to assess the UKIA's effectiveness in providing assurance and advisory services to the ACC and senior stakeholders within the university. The final objective was to determine the effectiveness of UKIA in identifying opportunities for improvement for audit clients.

The scope of the QAR included UKIA's processes, activity, staff and documentation for the past five years. To accomplish this, information prepared by UKIA was reviewed, interviews were conducted, and a sample of audit projects, benchmark data and survey data received from UKIA stakeholders were reviewed.

Mr. Anibaba then discussed the results of this external review, which were that UKIA, overall, generally conforms with the standards of the IIA Code of Ethics, noting that "generally conforms" is the top rating of conformance and demonstrates clear intent and commitment to achieving the core principles for the professional practice of internal auditing. Mr. Anibaba stated that there were only three areas that did not generally conform, which were standards 1310, 1311 and 1320, which were rated "partially conforms." Mr. Anibaba explained that UKIA does adhere to these standards, albeit informally and thus were not documented in UKIA's process manual. To remediate this, UKIA will formalize and document in their process manual and include language regarding the standards in UKIA's charter, along with communicating to the ACC.

V. New Business Items

A. Proposed Audit and Compliance Committee Charter Revisions

Chair Berry then introduced Mr. Reed to discuss proposed revisions to the ACC charter. These revisions include:

- 1) Changing the title of the department head in the Purpose section and Internal Auditors section.
- 2) Adding verbiage from UKIA's charter, which states that UKIA's activities are free and independent, to the ACC charter.
- 3) Including a stipulation in the Structure section that excludes members staff, faculty or students from membership eligibility to avoid the appearance of a conflict of interest.
- 4) Altering the frequency of reviewing the ACC charter in the General

- Responsibilities section from quarterly to annually.
- 5) Adding language regarding compliance with the Institute of Internal Auditors standards to the Internal Auditors section.
  - 6) Revising UKIA's terminology of "work plan" to work prioritization plan.
  - 7) Adding the review of the Accountability Office for effectiveness, due to it being added to the UKIA office.

#### B. Proposed UK Internal Audit Charter Revisions

Mr. Reed then presented the proposed changes to the UKIA charter. These changes include:

- 1) Defining "consultation services" and the new UKIA reporting structure in the Purpose section.
- 2) Adding the "Core Principles for the Professional Practice of Internal Auditing" and UKIA's personal standards to the Standards section.
- 3) Revising the engagement of outside entities in the Authority section to include entities that may have Memorandums of Understanding with a university unit.
- 4) Amending the UKIA department head to accommodate the title change.
- 5) Adding additional language stating that UKIA's responsibilities are in conformance with the international standards.
- 6) Including clarification in the Responsibilities section stating that UKIA will discuss any proposed revisions based on industry, university or UKIA responsibility changes. Any revisions will be approved by the ACC.
- 7) Adding language stipulating that progress reports and the acceptance of risks will be communicated to the ACC.
- 8) Amending what is reported to the ACC to include all final reports with the exception of inquiries that are not substantiated and elevated to the investigation status.
- 9) Adding a Quality Assurance section that stipulates UKIA receiving a quality assessment review conducted by external auditors.
- 10) Adding the responsibilities of the new Accountability Office to the Accountability section.

#### VI. Adjournment

With no further business to come before the Committee, Chair Berry asked for a motion to adjourn. The motion was made by Trustee Sunderland and seconded by Trustee McCann. The motion was carried, and the meeting was adjourned at 1:54 p.m.

Respectfully Submitted,

Alan Wood  
Assistant Editor  
UK Internal Audit