

**MINUTES OF THE AUDIT AND COMPLIANCE COMMITTEE
OF THE FINANCE COMMITTEE
University of Kentucky Board of Trustees
December 15, 2015
9:00 am – 10:00 am
Patterson Office Tower, 18th Floor, Board Room**

Committee Members Present

Mark Bryant (Chair), Skip Berry, Angela Edwards and David Hawpe

Approval of Minutes

The minutes of the September 11, 2015 Audit and Compliance Committee (ACC) meeting were approved as presented.

Reports and Discussion Items

BKD Results of FY 2015 Financial Statement Audit

Ms. Mary McKinley, BKD Partner and Ms. Joanie Duckworth, BKD Manager reviewed the *Results of the 2015 Financial Statement Audit, Internal Control Matters and Other Required Communications*. The following items were highlighted:

Audited Financial Statements

BKD issued an unmodified (clean) opinion regarding the FY 2015 financial statements. There were no audit adjustments to the consolidated statements. BKD did have unrecorded passed adjustments that were reviewed with UK Management and former ACC Chair. All agreed that the passed adjustments had no significant effect on the financial statements.

Regarding the scope of the audit, BKD performed 12 separate audits for the University as well as certain agreed-upon procedures required by the NCAA for the Athletics Department. As part of the audit, BKD discussed with UK Management several significant FY 2015 transactions that involved financial activity with JMI, EDR Phase II, Aramark, Barnes & Noble, and the sale of Coldstream Laboratories. There were no internal control matters that BKD needed to report to the Audit Committee. Regarding federal expenditures, BKD did not find any exceptions in federal awards. Also, BKD did not find any significant deficiencies or material weaknesses of internal controls with regards to the federal awards.

Additional Questions

Chair Bryant asked if any unusual items were found that affected changes in net assets. Ms. McKinley stated that there were some fluctuations from the prior year and Ms. Duckworth mentioned several of the new transactions that affected the numbers this year. The JMI Sports Multimedia Marketing Contract added an additional 210 million dollar receivable to the balance this year as opposed to last year. The dorm construction also added additional changes in financial numbers this year as compared with last year. All of those changes are described in the management section of the report.

Mr. David Hawpe asked about fraud detection. Ms. McKinley explained that the external audit process is not designed to detect every instance of fraud. Mr. Joe Reed, Senior Director of UK Internal Audit (UKIA) stated that there are four things that UKIA does to help deter fraud: (1) Surprise audits (2) Data mining for separation of duties issues (3) Review of University Comply Line calls and (4) Fraud assessments performed as part of comprehensive reviews. Mr. Reed stated that these activities are designed to provide reasonable assurance versus absolute assurance regarding the absence of fraud. Chair Bryant thanked Ms. McKinley and Ms. Duckworth for all their years of service here for the University of Kentucky.

UK Internal Audit Update

Mr. Joe Reed, UKIA Senior Director, gave the following report.

FY 2016 Activity Update

Mr. Reed reviewed the FY 2016 Activity Update as of October 31, 2015. He mentioned that as of this date, UKIA had approximately 5,600 direct audit hours which translated into a productivity rate of 77%. He noted that budgeted hours were 5,800 but UKIA did not reach this due to hiring delays of new audit staff. He then introduced new staff members Kristi Corum (Principal IT Auditor), Sarah Morey (Senior Business Auditor) and Aleigha Colwell (Quality Assurance Coordinator). Of the 5,600 direct hours used, there were almost 600 hours given to FY 2015 planned engagements. Infrastructure hours (1,175) equaled 21% of the direct hours utilized. Consequently, not many hours have been available for FY 2016 planned activity.

Unplanned hours comprised 44% of total productivity. Regarding audit coverage, Mr. Reed noted that the Academic Units and UK HealthCare enterprise divisions had the greatest number of hours thus far. Overall UKIA met four of the six metrics as of October 31, 2015.

Fiscal Year 2015 Comply Line Update Summary

Mr. Reed noted that UKIA, Corporate Compliance and Human Resources handle the Comply Line calls. Approximate 60% of the calls involve UK HealthCare as it is more highly regulated and also heavily markets the Comply Line. Ten categories are used to classify the calls. UKIA trends the Comply Line calls and considers the trends when formulating the Work Plan. In FY 2015 there were 176 calls. Twenty-one calls were duplicates and seven were general in nature. So there were 148 reportable calls. Reportable calls for FY 2013 & 14 were 120 so the numbers of calls are increasing. It was also noted that the Comply Line covers UK Athletics.

Mr. Hawpe expressed his support for the work UKIA is doing and the importance of it. There being no further business, the meeting was adjourned.

Next Meeting

Thursday, February 18, 2016

- Recommendation for External Auditors from RFP
- Internal Audit FY 2016 Mid-year Activity Update
- Cyber Security Presentation

Respectfully submitted,

Ralph Kimbrough