

MINUTES OF THE AUDIT AND COMPLIANCE COMMITTEE
University of Kentucky Board of Trustees
February 18, 2016
2:45 pm – 3:45 pm
317A Charles T. Wethington Bldg.

Committee Members Present

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

Approval of Minutes

The minutes of the December 15, 2015 Audit and Compliance Committee (ACC) meeting were approved as presented.

Reports and Discussion Items

UK Internal Audit Update

Mr. Reed gave the following report.

FY 2016 Activity Update

Mr. Reed reviewed the FY 2016 Activity Update as of December 31, 2015. The top left quadrant represents the FY 2016 UKIA Approved Work Plan. He mentioned that, as of this date, UKIA has utilized half of the allotted hours in this category to complete FY 2015 engagements. Unplanned activities totaled 2,700 hours for reviews in the top right quadrant. The current rate of unplanned activity is 41% of total direct hours.

The bottom left quadrant depicts audit work performed by Enterprise Division; the majority of hours have been spent in the Academic and Healthcare divisions. There were about 3,000 hours for the academic side and about 2,700 hours for the Healthcare side. The bottom right quadrant lists UKIA metrics and the status of each. Mr. Reed noted that UKIA's Productivity Rate is running at 84%. The work plan completion rate is currently at 9%; however, this completion rate should be approximately 60% by the end of the year. Mr. Reed stated that UKIA will not be accomplishing as much this year due to being one position short. This position will not be filled until fiscal year 2017.

Mr. Hawpe asked about the timing for filling the vacant position. Mr. Monday answered Mr. Hawpe's question by stating that UK had invested in the Internal Audit function for several years and will continue to support the operation.

UK Internal Audit Cyber Security Presentation

Mr. Reed gave the following presentation:

Mr. Reed made a presentation regarding Cyber Security, specifically what Internal Audit does regarding Cyber Security. UKIA provides nine services. Of these, six relate to information technology. Regarding these six services, UKIA assesses all applications to see if they are essential and critical. From a risk standpoint, Internal Audit performs the following:

- Evaluates both internal and external threats
- Reviews the appropriateness of employee access with system roles and privileges
- Audits the access of third party contractors and vendors

Mr. Reed also added that Information technology staffs on the Healthcare side and Campus side are doing extensive testing and reviews to identify weaknesses in UK's system. UKIA is a participant in these evaluations. Although the IT security function belongs to UKIT, UKIA works with the information technology owners when weaknesses are identified.

Mr. Britton asked what can we do to keep hackers out? Mr. Reed answered that outside contractors can be hired to perform penetration testing. The probability of intrusions originating from social engineering occurs more frequently than hacking. Weak passwords allow for easy unauthorized entry.

Ms. Edwards asked if UK had adequate insurance coverage for breaches. Mr. Monday responded by saying that we have 10 million in coverage as of the first of this FY. Another University experienced an information breach so the need for more coverage is obvious. However, UK was already increasing its insurance coverage before the publicized incident at this other university.

Chair Bryant stated that the Audit and Compliance Committee would be going into closed session to discuss the consultant search.

Closed Session

Chair Bryant explained that the Audit and Compliance Committee needs to go into closed session in order discuss the responses to the request for proposals for the hiring of an independent accounting firm to provide audit, accounting, tax and consulting services and interview the search finalist. The following guidelines will be used in the closed session: only those persons necessary to provide information to the Committee and appropriate staff may be present and that nothing else would be discussed in the closed session but information related to the request for proposals. When the Committee discussion is complete no votes will be taken. Chair Bryant then made a motion to go into closed session pursuant to KRS 61.180 (1)(K). Chair Bryant also cited KRS 45A.085 (7) and KRS 45A.695 of the Kentucky Model Procurement Code, which would invoke the Committee to discuss information derived from responses for a request for proposals (RFP) submitted by all of the competing offers during the closed session. Mr. Hawpe requested a discussion and questioned the reason the session was closed to Board of Trustees members who were not on the Committee. General Counsel Thro explained that the session needs to be closed to discuss matters related to the RFP for proposals for audit, accounting, tax and consulting services as an open discussion could jeopardize contract negotiations with the selected firm and allow for external inquires and/or open records requests prior to conclusion of the RFP process. The motion was then approved, however Mr. Hawpe voted against the motion.

The closed session concluded and Chair Bryant stated that the Committee would proceed with the open session.

Ms. Krauss introduced the next agenda item, ACC 1, authorization to enter contract negotiations with identified finalist for audit, accounting, tax, and consulting services. Upon approval by the Committee, the Office of the Treasurer will initiate contract negotiations with the identified firm, execute the related contract and engagement letter for the 2016 audit engagement and report back to the Committee in May. The selected firm will attend the May ACC meeting and discuss the scope of the 2016 audit engagement. Mr. Britton made a motion to approve ACC 1 and Mr. Hawpe seconded the motion. The motion was approved.

Other Business

No other business to discuss.

Adjournment

Chair Bryant noted that with no further business to discuss and meeting was adjourned.

Next Meeting

Thursday, May 2, 2016

- UKIA Dynamic Work Plan
- UKIA Activity Report
- BKD Report on January 2016 Bond Offering
- BKD FY 2016 Audit Services Engagement Letter
- BKD FY 2016 Pre-Audit Communication Report

Respectfully submitted,

Ralph Kimbrough