

Audit and Compliance Committee Meeting  
Gatton Student Center, Harris Ballroom  
Friday, April 28, 2023

The Audit and Compliance Committee (ACC) of the University of Kentucky Board of Trustees met on Friday, April 28, 2023, in the Gatton Student Center Harris Ballroom.

I. Call to Order

Chair Claude “Skip” Berry III called the meeting to order at 8:30 a.m.

II. Roll Call

The following members of the ACC were in attendance: Claude “Skip” Berry III, Brenda Baker Gosney, Lance Lucas, Paula Leach Pope and Hollie Swanson. Cathy A. Black attended the meeting via Zoom.

III. Approval of Minutes – February 16, 2023

Chair Berry reported that the minutes of the February 16, 2023, meeting had been distributed. Trustee Lucas motioned to approve the minutes, and Trustee Pope seconded. The motion carried without dissent.

IV. Reports and Discussion Items

A. UK Internal Audit FY 2022-23 Quarter 3 Activity Update

Chair Berry introduced Chief Accountability Officer and Audit Executive Joe Reed to discuss UK Internal Audit’s (UKIA) activity updated for the third quarter of FY 2022-23. Mr. Reed explained that UKIA’s activity is informed by a work prioritization plan. This plan is composed of processes, information systems and units as well as ongoing activities such as inquiries and follow-ups.

Mr. Reed explained that UKIA completed three follow-up reviews—two for procurement card (ProCard) audits and one for a web application security audit. Follow-up reviews receive a remediation score to gauge how well the unit has resolved its initially identified concerns. Scores below 75 percent require a written management action plan; however, management must resolve all outstanding issues regardless of the score. UKIA also completed a comprehensive review of the UK HealthCare Command Center as well as an inquiry related to a potential conflict of interest.

Eight activities were completed but not distributed to the ACC. This included two inquiries that were distributed to UK administration and stakeholders only, and an additional two inquiries that were unsubstantiated and closed. Mr. Reed noted that unsubstantiated inquiries can still provide the reviewed unit with relevant information related to process weaknesses. The four other activities not distributed to the ACC included a repetitive audit memorandum, a time editing data analytic and two consultations/partnerships.

Returning to the work prioritization plan, Mr. Reed explained that tracking completed projects allows UKIA to trend audit results and disseminate relevant information to the wider enterprise community via a webinar titled Lessons Learned. Mr. Reed shared an anecdote from an ongoing ProCard audit during which the client expressed that a Lessons Learned webinar featuring information from UKIA's ProCard audits of all academic colleges helped inform the unit what areas were at the greatest risk of noncompliance.

Mr. Reed then turned to active reviews, explaining that UKIA's audit activity is based on seven business risk factors and 20 associated components. These items provide the justification for why UKIA performs its chosen audits. UKIA has five active comprehensive reports, all related to academic units, as well as three ProCard and five asset verification repetitive audits underway. UKIA is also performing a year-round employee vendor match data analytic to identify and investigate anomalies between university employees and vendors. Additionally, UKIA has eight active follow-up reviews, which include one grant review, three comprehensive reviews and four ProCard reviews. Lastly, UKIA is currently working on four active consultations/partnerships as well as six inquiries.

Mr. Reed then summarized the current activity totaling 32 active reviews across numerous cabinet areas. Tracking the reviews this way provides greater insight into each area's health, thus adding value not only by completing and distributing reports but, more importantly, by trending results after the audits conclude. The Committee had no questions for Mr. Reed.

B. Executed FY 2022-23 Audit Engagement Letter and Agreed-Upon Procedures Letters for the NCAA, Department of Behavioral Health, Developmental and Intellectual Disabilities and Kentucky Medical Services Foundation

Chair Berry then introduced Treasurer Penny Cox. Ms. Cox opened by explaining that in the February 2023 ACC meeting, the ACC approved the Treasurer to execute the engagement letter with FORVIS for the FY 2022-23 external audit at a scope of approximately \$661,000. She explained that the university's primary responsibility for this audit is to prepare financial statements in accordance with the Generally Accepted Accounting Principles (GAAP).

Ms. Cox then noted FORVIS' deliverables for this audit, which include an audit of the university and its affiliates basic financial statements for the fiscal year ending June 30, 2023, an audit of the basic financial statements of the university's organizational units, UK HealthCare Hospital System, the Kentucky Tobacco Research and Development Center, Alumni Association and WUKY-FM Radio. Other deliverables included reports on internal controls and compliance as required by the state and federal governments, a report on the university's estimated bond arbitrage liability and reports on agreed-upon procedures (AUPs) for three entities.

The first AUPs related to those required by the National Collegiate Athletic Association (NCAA) to verify the accuracy and completeness of financial data of the university's Department of Intercollegiate Athletics. The second AUP related to contract compliance between the university and the management of Eastern State Hospital and the Central

Kentucky Recovery Center. The third and final AUP related to the university's contract with the Kentucky Medical Services Foundation. Ms. Cox explained that there were no notable changes in the AUPs for the engagements to be performed for FY 2022-23.

### C. FORVIS Pre-Audit Report to the Audit and Compliance Committee

Chair Berry introduced FORVIS' Audit Partner Mary McKinley for the university. Ms. McKinley said that she and Director at FORVIS Joanie Duckworth, would be presenting together. Ms. McKinley explained that the auditors' responsibilities include obtaining reasonable, but not absolute, assurance about the university's financial statements, establishing scope and tests to review key, high-risk areas, assessing the appropriateness of accounting principles used and significant estimates made within financial statements as well as documenting the internal control structure of the financial statement process.

Ms. McKinley then noted the entities to be audited, which Treasurer Cox listed during her presentation. The entities are the same as the FY 2021-22 audit but now include the newly acquired Royal Blue Health entity, King's Daughters Hospital. The risk areas identified are also similar to those from FY 2021-22 and include the risk of management override of controls, improper revenue recognition, self-insurance for medical malpractice and litigation reserves, valuation of alternative investments, allowance for doubtful accounts and pledges receivable, compliance with Uniform Guidance and contractual allowances and amounts due to/from third-party payors. She explained Uniform Guidance relates to federal funds the university expends throughout the year. Two notable programs that will be tested for Uniform Guidance are the Research and Development program and the Provider Relief Funds.

Director Duckworth then discussed FORVIS' timeline and ongoing communications. In line with the Commonwealth of Kentucky's reporting deadline, the final report is to be issued by October 6, 2023. FORVIS' presentation to the ACC will be given in December 2023. Ms. Duckworth explained that FORVIS is available to the ACC for any matters but brought special attention to issues related to fraud involving senior management, illegal acts, significant deficiencies and/or material weaknesses and material instances of noncompliance for federal award programs.

Ms. Duckworth highlighted two new accounting pronouncements that will be effective for the current fiscal year: Governmental Accounting Standards Board (GASB) No. 94, Public-Private Partnerships and GASB No. 96, Subscription-Based Information Technology Arrangements. These pronouncements are currently being reviewed or will be reviewed by management for their applicability in the financial statements.

Ms. Duckworth closed by noting FORVIS' considerations of errors or fraud, which include engagement team brainstorming, inquiries of management and others, reviewing account estimates for bias, evaluation of business rationale for significant unusual transactions and transactions with related parties, as well as incorporating an element of unpredictability into the audit each year.

The ACC had no questions for Ms. McKinley or Ms. Duckworth.

## V. New Business Items

### A. Audit and Compliance Committee and UK Internal Audit Charter Revisions

#### i. ACC 1 Audit and Compliance Committee Charter Revisions

Mr. Reed recommended that the ACC approve the proposed revisions to the ACC Charter. The ACC Charter was approved on September 21, 2004, and has since been revised six times to better define the ACC's composition and responsibilities as well as require all reports to be distributed to the ACC except for unsubstantiated inquiries, consultations and reports regarding activity with minimal risk to the university. The most recent revisions were read during the February 16, 2023, ACC meeting. These revisions clarify UKIA's advisory and accountability functions and describe how they complement the assurance role.

Chair Berry requested a motion to approve the revisions. Trustee Gosney motioned to approve the changes, and Trustee Pope seconded. The motion carried without dissent.

#### ii. ACC 2 UK Internal Audit Charter Revisions

Mr. Reed recommended that the ACC approve the proposed revisions to the UKIA Charter. The Charter was initially approved on May 10, 2005, and has since been revised six times to account for changes to UKIA's critical functions and processes as well as ensure alignment with the internal audit Professional Standards. The most recent revisions were first read during the February 16, 2023, ACC meeting. Like the ACC Charter revisions, these changes clarify UKIA's advisory and accountability functions and explain how they complement the assurance role as well as require all reports to be distributed to the ACC except for unsubstantiated inquiries, consultations and reports regarding activity with minimal risk to the university.

Chair Berry requested a motion to approve the revisions. Trustee Swanson motioned to approve the changes, and Trustee Pope seconded. The motion carried without dissent.

## VI. Adjournment

With no further business to come before the Committee, Chair Berry adjourned the meeting at 8:57 a.m.

Respectfully Submitted,

Skylar Bensheimer  
Editorial Assistant  
UK Internal Audit