Audit and Compliance Committee Meeting
Harris Ballroom, Gatton Student Center
February 20, 2025

The Audit and Compliance Committee (ACC) met on February 20, 2025 in the Gatton Student Center, Harris Ballroom.

I.   Call to Order

Chair Ray Daniels called the meeting to order at 1:00 p.m.

II.   Roll Call

The following members of the ACC were in attendance: Claude "Skip" Berry III, Janie Greer, Elizabeth McCoy, Hannah Miner Myers, Paula Leach Pope and Hollie Swanson. Trustee Cathy Black attended via Zoom.

III.   Approval of Minutes – December 2, 2024

Chair Daniels reported that the minutes of the December 2, 2024 meeting had been distributed. Trustee Swanson motioned to approve the minutes, and Trustee Pope seconded. The motion carried without dissent.

IV.   Reports and Discussion Items

 A. FY 2024-25 Quarters 1 and 2 Activity Update

Chair Daniels introduced Chief Accountability Officer and Audit Executive Joe Reed to present an update on UK Internal Audit's (UKIA) activity during quarters one and two of FY 2024-25. UKIA's activity is informed by its work priorities, which are divided into planned and unplanned activity. Planned activity comprises numerous processes, information systems and units, while unplanned activity includes inquiries, follow-up reviews and other ongoing projects. UKIA uses seven business risk factors and 20 associated components to create its work priorities each year.

Mr. Reed began with the active enterprise-wide activity, which includes all activity outside of healthcare. UKIA was engaged in three comprehensive reviews, one information technology (IT) review, one repetitive audit, four follow-up reviews and three data analytics programs. The first data analytics program, Employee Vendor Match, identifies anomalies from vendor payments and validates the appropriateness of employees or their relatives being paid as vendors. Any exceptions identified from this program are reviewed by UKIA's investigations team. The second program, Supplemental Software Applications, helps UKIA determine whether software applications purchased by units were procured appropriately. The final program, Fictitious Employees, is used to identify employees on the University's payroll who have not provided a service to the University. Mr. Reed explained that data analytics enable UKIA to work proactively and discern process weaknesses even if some identified exceptions are false positives.

Chair Daniels commended UKIA for organizing the activity presentation in a way that was easy to read and follow.

Mr. Reed noted that UKIA had eight active inquiries and thanked the investigations team for their work. UKIA also had seven active partnerships related to area fiscal officers, business policies and procedures, Card Integrity, Human Resources, electronic records and signatures, data analytics and the University's Finance and Administration Specialized Training program. Many of these partnerships enable UKIA to share trends, insights and process vulnerabilities with other enterprise units.

Transitioning to completed enterprise-wide activity, UKIA had concluded four repetitive audits, four follow-up reviews and three inquiries. When multiple reviews identify the same risk areas, UKIA works with the appropriate process owner to remediate concerns proactively and at the root cause.

Mr. Reed then detailed UKIA's active healthcare activity, which included two comprehensive reviews, two consultations, one IT review and one assessment. UKIA's completed healthcare activity included one follow-up review, one IT review and one assessment. The completed assessment was not distributed to the ACC because assessments are used to create a risk profile for the client and for UKIA to plan future activity.

In summary, UKIA had 20 active assurance projects and 11 active advisory projects at the end of quarter two of FY 2024-25. Regarding UKIA's FY 2024-25 Work Priorities, UKIA had completed or engaged projects to mitigate risk in 11 of 16 priority areas.

Trustee Swanson asked what indicators UKIA uses to identify ghost or fictitious employees. Mr. Reed replied that a lack of separation of duties can allow ghost employees to be paid without detection because a single person can approve and reconcile payroll transactions. Other common indicators include discrepancies between a unit's approved headcount and the number of employees on the unit's payroll as well as units whose expenses consistently exceed their budgets.

B. FY 2024-25 Midyear Metrics

Chair Daniels introduced Deputy Accountability Officer and Audit Executive Martin Anibaba to report on UKIA's metrics for the first half of FY 2024-25. UKIA has six key performance indicators which focus on ensuring that each engagement is performed efficiently and effectively while providing value to the client.

Metric one is audit duration, which measures the number of hours spent on each engagement. Metric two is productivity, which measures how effectively UKIA allocates resources to value-added, risk-based activities. Metric three, audit coverage, measures the extent to which UKIA has evaluated the processes, units and information systems noted in UKIA's work priorities. Metric four, consultations/partnerships, tracks the collaborative and advisory activities in which UKIA engages with its clients to mitigate risk and provide guidance proactively. Metric five, remediation, measures the effectiveness of UKIA's audit processes by calculating the percentage of identified risks that have been effectively addressed by

management. The sixth and final metric is client satisfaction, which measures how well the audit processes and final deliverables meet the needs and expectations of stakeholders. Metric six also assesses how satisfied attendees are with Lessons Learned, UKIA's webinar series.

For audit duration, UKIA had completed 11 audit projects across four audit types as of December 31, 2024. The one completed IT review used 116 percent of its budgeted hours, while the one completed assessment used 38 percent of its budgeted hours. Four completed repetitive audits used 91 percent of their budgeted hours, and five completed follow-up reviews used 57 percent of their budgeted hours. Overall, UKIA's completed projects were 47 percent under budget, requiring only 1,732 of the 3,225 total hours budgeted for them.

Transitioning to productivity, Mr. Anibaba explained that UKIA categorizes employee work hours as either productive time or infrastructure time. Productive time includes activity related to work priorities, audit planning, audit fieldwork, audit reporting and stakeholder outreach. Infrastructure time includes general administrative tasks, professional development, human resources and IT support but excludes sick, annual and holiday leave. UKIA's managers exceeded their goal of 60 percent productive time in quarters one and two of FY 2024-25, reaching 61 percent and 70 percent, respectively. UKIA's audit staff achieved 66 percent productive time in quarter one and 76 percent in quarter two, with a goal of 75 percent.

Mr. Anibaba noted that metrics play a key role in UKIA's external Quality Assurance Review (QAR), which occurs every five years. The next QAR will begin toward the end of calendar year 2025 and will reflect the new Global Internal Audit Standards. UKIA was scored "Generally Conforms," the highest possible score, in the 2020 QAR.

Returning to the metrics results, Mr. Anibaba noted that the audit coverage metric was shared during Mr. Reed's activity update report. Regarding consultations and/or partnerships, UKIA aims to engage eight each year and had seven active partnerships and two active consultations as of December 31, 2024. Remediation was at 89 percent, with a goal of 100 percent. Remediation is determined by calculating the percent of risks noted in the client's initial review that had been mitigated at the time the follow-up review was conducted.

Metric six, client satisfaction, uses surveys to measure both the satisfaction of audit clients and the satisfaction of Lessons Learned attendees. Audit clients are asked to evaluate four aspects of the audit on a scale of one to five with five being the highest.

Category one, UKIA staff, evaluates the staff's knowledge and preparedness, which received an average score of 3.91. Category two, audit process, measures the effectiveness of efforts to minimize disruptions to the client. Audit process received an average score of 3.88. Category three, audit report and communication, measures the clarity of the communications, the practicality of the recommendations, how well concerns were addressed and whether the time allotted for the client to develop their management action plan was reasonable. Category three received an average score of 4.06. The fourth category, value-add to client, evaluates whether UKIA addressed major concerns and collaborated with the client to develop solutions. Category four received an average score of 3.83. UKIA received an average overall score of 3.93.

Like audit clients, Lessons Learned attendees are asked to rate their satisfaction with UKIA's webinar on a scale of one to five with five being the highest. UKIA had produced and hosted two webinars by the end of quarter two. The first webinar covered international travel risk areas and received an average score of 3.91. The second webinar provided guidance on the policy hierarchy—the alignment of policies ranging from the federal and state governments to the University and its units—and received an average score of 3.81. Lessons Learned enables UKIA and University personnel to stay ahead of emerging risks and proactively enhance risk mitigation strategies.

Trustee Swanson asked what the new Global Internal Audit Standards address. Mr. Anibaba said the standards guide UKIA's work to ensure it is consistent and value-added.

Trustee Swanson asked how the total audit hours expended in FY 2024-25 compared to previous years. Mr. Anibaba said that in previous years, UKIA's expended hours exceeded the budgeted hours due to a high turnover rate within the department. Transitioning work to new auditors while maintaining a high level of quality took significant time. However, there has not been an overall increase in hours expended from year to year.

In reference to the client satisfaction scores, Trustee Swanson asked what changes UKIA would make to address the lowest scoring categories. Mr. Anibaba said that the satisfaction survey has specific questions and areas for the respondent to leave comments. UKIA has an internal group that reviews the responses to determine potential adjustments. Trustee Swanson asked if the audit process category, for example, was the lowest scoring area, what specific changes would UKIA make to increase the score. Mr. Anibaba said that the Global Internal Audit Standards guide much of the audit process. However, there are parts of the process that the standards cannot measure, such as interactions with the audit staff or communication. Depending on the response data, UKIA may change the audit process to improve in these areas.

As Mr. Reed approached the podium, Trustee McCoy asked if client satisfaction results are influenced by the specific audits that were performed and how clients interpreted the findings. Mr. Reed said yes.

VI.   New Business Items

   A. Amend UK Internal Audit FY 2024-25 Work Priorities

Mr. Reed presented UKIA's proposed amendment to add nonexempt overtime compensation (NOC) to its FY 2024-25 Work Priorities. Per the Global Internal Audit Standards and UKIA's Charter, the work priorities and any subsequent changes must be approved by the ACC. The amendment was proposed due to increased NOC risk, and to allow UKIA to conduct NOC reviews proactively. UKIA's FY 2024-25 NOC activity has already included three reactive reviews, all of which stemmed from inquiries.

These reviews evaluated unit adherence to overtime and recordkeeping requirements mandated federally in the Fair Labor Standards Act as well as lunch break and rest period requirements mandated by the state in the Kentucky Revised Statutes. NOC noncompliance

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may result in backpay to employees, monetary fines and employee lawsuits.

UKIA's planned NOC activity will use four service lines to mitigate risk across the enterprise. The first service line is repetitive audits, which will focus on high-risk areas. Service line two, data analytics, will detect anomalies. Service line three, consultations, will communicate NOC trends to leadership and other pertinent University personnel. Service line four, training, will be a collaboration with Human Resources to provide guidance related to NOC compliance and risks.

Chair Daniels asked for a motion to approve the amendment of UKIA's FY 2024-25 Work Priorities to include NOC. Trustee Berry motioned to approve; Trustee Myers seconded the motion, and the recommendation passed without dissent.

B. Execute FY 2024-25 Audit Engagement Letter

Chair Daniels introduced UK Treasurer Penny Cox to present a recommendation to authorize the treasurer to execute the FY 2024-25 Audit Engagement Letter with Forvis Mazars. Forvis Mazars has been the University's external auditor since 2016 following a competitive bid process. FY 2024-25 will be the final one-year renewal option with Forvis Mazars. The University will release a Request for Proposal (RFP) to solicit bids for a new external auditing contract for award beginning July 1, 2025.

The cost of the engagement will increase from $694,100 in FY 2023-24 to approximately $1,070,000 in FY 2024-25. The cost increases fall into three categories. The first category includes the impact of recently adopted accounting standards, Uniform Guidance audit standards, alternative investment expansion as well as additional work related to the UK Hospital System's directed payments and third-party analysis, totaling $220,000 in fees. The second category includes $167,500 in fees for the consulting and auditing of Claire Blue Health, LLC., which joined UK on July 1, 2024. The third category includes $16,000 in fees for the University's additional research programs that had expenditures greater than $3 million, as required by the federal government.

The engagement will include three primary services. Service one will be an audit of the basic financial statements of the University and its affiliates for the fiscal year ending June 30, 2025. Service two will be an audit of the basic financial statements of the University's organizational units, the Kentucky Tobacco Research and Development Center, Alumni Association and WUKY-FM Radio. Service three will include reports on internal controls and compliance as required by the state and federal government as well as reports on various agreed-upon procedures.

Treasurer Cox said that Forvis Mazars will present the detailed engagement letter to the ACC during the April 2025 board meeting.

Chair Daniels asked for a motion to authorize the treasurer to execute the engagement letter with Forvis Mazars for the audit of the University's financial statements for the fiscal year ending June 30, 2025. Trustee Pope motioned to approve; Trustee Swanson seconded the motion, and the recommendation passed without dissent.

Trustee McCoy asked if the University is required to select a different auditing firm during the upcoming RFP process and whether Ms. Cox expects Forvis Mazars to submit a bid. Ms. Cox replied that the University is required to engage the competitive bid process but is not required to select a different firm. Ms. Cox expects Forvis Mazars and other audit firms to respond to the RFP.

VII. Adjournment

With no further business to come before the Committee, Chair Daniels adjourned the meeting at 1:51 p.m.

Respectfully Submitted,

Skylar Bensheimer
Editorial Assistant
UK Internal Audit