

Audit and Compliance Committee Meeting
Harris Ballroom, Gatton Student Center
April 24, 2025

The Audit and Compliance Committee (ACC) met on April 24, 2025, in the Gatton Student Center, Harris Ballroom.

I. Call to Order

Chair Ray Daniels called the meeting to order at 12:30 p.m.

II. Roll Call

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

III. Approval of Minutes – February 20, 2025

Chair Daniels reported that the minutes of the February 20, 2025, meeting had been distributed. Trustee McCoy motioned to approve the minutes, and Trustee Greer seconded. The motion carried without dissent.

IV. Reports and Discussion Items

A. UK Internal Audit FY 2024-25 Quarter 3 Activity Report

Chair Daniels introduced Chief Accountability Officer and Audit Executive Joe Reed to present an update on UK Internal Audit’s (UKIA) activity during quarter three of FY 2024-25. UKIA’s activity is informed by its work priorities, a dynamic group of processes, information systems and units as well as numerous continuous and unplanned activities. The ACC approved non-exempt overtime compensation to be added to UKIA’s work priorities during the February 20, 2025, ACC meeting. UKIA uses seven business risk factors and 20 associated components to quantify risks and create its work priorities each year.

Mr. Reed began with the active enterprise-wide activity, which includes all activity outside of research and healthcare. UKIA was engaged in three comprehensive reviews, one information technology (IT) review and three data analytics programs. The first data analytics program, Employee Vendor Match, reviews relationships between employees and vendors for compliance. Any exceptions identified from this program are reviewed by UKIA’s investigations team. UKIA meets quarterly with its enterprise partners to review the results of the analytics programs so that any vulnerabilities can be addressed timely. Due to the significant work performed by UKIA’s data analytics and investigations staff, UKIA plans to produce an episode of UKIA’s webinar series, Lessons Learned, to communicate trends and insights from the Employee Vendor Match program to the enterprise community. 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 noted that UKIA had seven active inquiries/investigations, explaining that inquiries are escalated to an investigation once the associated allegation has been substantiated. Five of these reviews began due to information gained from direct contacts, while two began due to calls through the University's anonymous Comply Line.

Mr. Reed then went over UKIA's active consultations, which included reviews of the James B. Beam Institute's business plan and the College of Dentistry's revenue cycle. Mr. Reed explained that UKIA distributes consultation reports to the appropriate President's Cabinet member over the unit being reviewed but not to the ACC.

Additionally, UKIA was engaged in partnerships related to business policies and procedures, Card Integrity, cybersecurity and privacy, employee vendor payments and protocols, enterprise data access, and the University's Finance and Administration Specialized Training program. UKIA also meets regularly with both the Area Fiscal Officers and Human Resources. These eight collaborations enable UKIA and its partners to share information on key activities around the enterprise.

Transitioning to completed enterprise-wide activity, UKIA had concluded one comprehensive review and one inquiry. Though the inquiry was unsubstantiated, UKIA identified process weaknesses and communicated them to the process owners.

Mr. Reed then outlined UKIA's active healthcare activity, which included three comprehensive reviews, one follow-up review, one IT review and one assessment. UKIA's completed healthcare activity included one comprehensive review, two repetitive audits and one assessment.

In summary, UKIA had 17 active assurance projects and 11 active advisory projects at the end of quarter three of FY 2024-25. Regarding UKIA's FY 2024-25 work priorities, UKIA had completed or engaged projects to mitigate risk in 15 of 17 priority areas. Mr. Reed explained that one project may examine multiple priority areas simultaneously.

Following Mr. Reed's report, Trustee Berry said that he has been impressed by UKIA's standard of practice over the last nine years, noting the accuracy, simplicity and readability of UKIA's reports. Mr. Reed thanked Trustee Berry and UKIA's staff.

B. Executed FY 2024-25 Audit Engagement Letter and Agreed-Upon Procedures Letters for the NCAA, Department of Behavioral Health, Development and Intellectual Disabilities and Kentucky Medical Services Foundation

Chair Daniels introduced University Treasurer Penny Cox to present the FY 2024-25 audit engagement letter and agreed-upon procedures (AUP) for the National Collegiate Athletic Association (NCAA), Department of Behavioral Health, Development and Intellectual Disabilities and Kentucky Medical Services Foundation. Treasurer Cox said that the University's primary responsibility is to prepare its financial statements in accordance with the Generally Accepted Accounting Principles and submit the audit to the state by the October 3, 2025, deadline. The ACC approved the audit engagement letter and three AUP with Forvis

Mazars at the February 20, 2025, ACC meeting.

The first AUP is for the NCAA and is required by the Department of Intercollegiate Athletics. The second AUP is for the Department of Behavioral Health, Development and Intellectual Disabilities to verify the University's compliance with its contract between Eastern State Hospital and the Central Kentucky Recovery Center. The third AUP is for the University's contract with the Kentucky Medical Services Foundation. Treasurer Cox said that there were no notable changes in the AUP for FY 2024-25.

The ACC had no questions for Treasurer Cox.

C. Forvis Mazars Pre-Audit Report to the Audit and Compliance Committee

Chair Daniels introduced Engagement Partner Jennifer Williams and Director Joanie Duckworth of Forvis Mazars to present their pre-audit report. Engagement Partner Mary McKinley was also present. She said that she will be retiring soon, and that Ms. Williams will take her place as Lead Engagement Partner.

Ms. Williams said that Forvis Mazars has been engaged to audit the financial statements and compliance with federal awards of the University, its affiliates and departments for the fiscal year ending June 30, 2025. Forvis Mazars' responsibility is to express an opinion on the financial statements prepared by management in accordance with the Generally Accepted Auditing Standards. Forvis Mazars has planned a schedule with management to deliver the audit by the required October 3, 2025, deadline. The audit includes established testing procedures and uses a risk-based approach. Forvis Mazars will note procedures related to the University's control environment. Any matters identified during the audit process will be reviewed and discussed with management.

Ms. Duckworth said that the significant risks of material misstatements are consistent with the audits from previous years but that the major programs to be tested for compliance with uniform guidance change each year. Forvis Mazars anticipates testing at least five major programs this year. Forvis Mazars will review UK Internal Audit's reports to help identify any other significant risks to the University and its affiliates. The engagement includes audits of separate financial statements for various affiliates, with separate pre-audit reports to their respective boards of directors.

The audit will include the adoption of two new accounting standards. One is the Government Accounting Standards Board Statement No. 101, Compensated Absences. Management is reviewing this standard to determine its impact, if any, on the financial statements. The second standard is the National Association of College and University Business Officers' tuition discounting methodology, which management has reviewed. Forvis Mazars will evaluate both standards during its planning procedures. Ms. Duckworth then noted Forvis Mazars' procedures regarding the consideration of error or fraud in financial statements, which include engagement team brainstorming, inquiries of management and others as well as reviewing accounting estimates for bias.

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

Chair Daniels welcomed Ms. Williams to the audit team then shared the ACC's "appreciation to Mary [McKinley] for her many years [providing audit services] to the University of Kentucky, for her professionalism and attention to detail and for her readiness to answer questions as the University adapts to regulatory changes and evolving financial reporting standards." Treasurer Cox said that through Forvis Mazars' growth, "[Ms. McKinley] has been the stalwart of the [professional] relationship with the University, and there has not been a time that we have reached out that she has not responded." Mr. Reed said that Ms. McKinley has been a pleasure to work with and commended her ability to put University personnel at ease during the audit process.

VI. Adjournment

With no further business to come before the Committee, Chair Daniels adjourned the meeting at 12:58 p.m.

Respectfully Submitted,

Skylar Bensheimer
Editorial Assistant
UK Internal Audit