FY2019-20 Annual Report

UK Internal Audit

TABLE OF CONTENTS

MISSION STATEMENT

To support UK in its pursuit of excellence by providing expert analyses and advice to champion the achievement of management objectives.

1500 Bull Lea Road, Suite 200

Lexington, KY 40511

Phone: 859.257.3126

Fax: 859.257.3566

Email: internalaudit@uky.edu

http://www.uky.edu/InternalAudit/

AUDIT SERVICES

ASSESSMENT REVIEWS
Provide a thorough appraisal of the critical operational, finance, and IT processes within a unit with multiple departments to identify potential risks.

COMPREHENSIVE REVIEWS
Ensure compliance with applicable laws and regulations, integrity of financial reporting, safeguarding of assets, and operational efficiency and effectiveness.

CONSULTATIONS
Gauge the unit's existing or new departmental activities and processes to ascertain opportunities for improvement (performed at the request of a unit's management).

DATA MINING
Analyze large and complex data sets to determine exceptions or detect anomalies based on specific criteria.

FOLLOW-UP REVIEWS
Assess the progress that has been made remediating the concerns noted in the initial audit.

INQUIRIES AND INVESTIGATIONS
Examine events that may have led to a monetary or physical loss to the University. Investigations develop from various sources, including tips (e.g., comply line, calls to UKIA), auditor observations, and UK Police reports.

IT REVIEWS
Evaluate the quality of the controls and safeguards over the University's IT resources.

REPETITIVE AUDITING PROGRAMS
Examine areas of high risk for non-compliance with federal regulations, such as the Fair Labor Standards Act. These programs also support the detection of fraudulent activity at the individual employee level.

TRAINING
Provide workshops and seminars through UK's Human Resources Training and Development Program.

FY2019-20 ACHIEVEMENTS

While Fiscal Year (FY) 2019-20 began as an ordinary year for UKIA, with the most aggressive aspect of its strategic objectives being preparations for its five-year quality assessment review, the year finished as anything but ordinary.

UKIA's ADJUSTED FOCUS IN RESPONSE TO COVID-19 ENVIRONMENT

UKIA effectively and efficiently modified its operations and adjusted its focus in response to COVID-19 to help the University minimize any emerging risks as it adapted to this new working environment:

- We offered consultations to all units and departments to provide reasonable assurance that appropriate controls were put in place as they transitioned to a remote working environment.

- We increased IT reviews to ensure that telework did not elevate the University's information security exposure.

- Data analytics were expanded to provide enhanced assurance with minimal disruption to University operations.

- Inquiries and investigations remained a priority.

As the third quarter concluded, coronavirus cases were on the rise across the United States and UK Internal Audit staff found themselves, like most others across the University, adjusting to a whole new way of conducting business, which included setting up remote offices and navigating Zoom meetings. But for UKIA, that also meant finding new ways to audit when on-site visits are restricted. While follow-up audits had to be put on hold indefinitely, UKIA pivoted to conduct more in-depth reviews in other areas and begin forging ahead with an expansion of its data analytics program.

INFORMATION TECHNOLOGY

- Migrated departmental data from an on-premises storage solution to cloud-based Microsoft Teams.
- Transitioned UKIA staff to a remote work environment and remote IT-support model.

BUSINESS AUDITS

- Expanded the investigation team with the addition of a second business auditor with investigation experience and a new full-time manager with IT expertise. The proactive team now handles multiple assignments autonomously.
- Created an Auditor Assistant position to support auditor(s) as needed to maximize productivity.

DATA ANALYTICS

UKIA expanded the analytics infrastructure with additional enterprise data sources, new project objectives and scripts to provide better risk mitigation through comprehensive, continual data testing.

COMMUNICATION

- Implemented the trending and bundling of audit results to provide management with a more meaningful analysis of risk across multiple areas to improve remediation and enhance planning capabilities.
- Launched a new Research Executive Dashboard that, in conjunction with quarterly meetings with research leadership, provides increased assurance regarding grant management risk across the University.

STUDENT PROGRAM

- UKIA engaged one team of finance and accounting students in Fall 2019 to assist with UKIA's Audit Universe.
- Eight additional teams were engaged simultaneously in Spring 2020 to work collaboratively with UKIA liaisons and University partners (Human Resources, University Financial Services, UK HealthCare, and others) on the Finance and Administration Training Transformation Project to develop workflows for critical processes and provide a risk assessment and recommendations.

AGILE AUDITING

"Modern internal auditing is risk-based, which means we need to know what are the biggest factors and events that could prevent business from meeting its objectives."
- The Management Information Systems (MIS) Training Institute

"Risk-based internal auditing is at the cutting-edge of internal audit practice... It allows internal audit to provide assurance to the board that risk management processes are managing risks effectively, in relation to the risk appetite."
- Institute of Internal Auditors

UKIA transitioned to a risk-based, agile auditing program in FY2018-19. Rather than a static, annual plan used by many of its peers across the state, a dynamic work prioritization plan enables UKIA to focus its resources on the concerns that present the greatest risks to the University while allowing the department to better respond to emerging risks as they arise. This process requires careful analysis of regulatory changes, the current environment, and industry concerns while taking into consideration previous audit activities, available resources, and expertise within a unit and how they all interplay with UK's strategic plan. Accordingly, UKIA developed a FY2019-20 Work Prioritization Plan that included 12 processes, six units, and three applications, as well as 18 follow-up reviews. Three unplanned reviews were also conducted, including an investigation related to the University's comply line, one direct request for UKIA's assistance, and one for which the scope was expanded to adequately assess the conditions discovered while in the field.

Because this approach enables UKIA to "go where needed" and does not stipulate particular units to review, UKIA consultants can efficiently and effectively assess for systemic concerns with processes, units, and applications across enterprise divisions and colleges, increasing audit coverage and providing even greater assurance to the University. In fact, through this approach, some process concerns were "covered" more than 20 times this Fiscal Year alone, including contract management, conflicts of interest, and regulatory compliance.

More importantly, this "bundled" approach enables UKIA to make more insightful and meaningful recommendations that will contribute to more thorough and enduring risk mitigation over time.

METRICS

FY2019-20 AUDIT COVERAGE

UKIA's Audit Coverage metric measures the degree to which the processes, units, and applications noted in its FY2019-20 Work Prioritization were evaluated and addressed through the reviews conducted during the year.

UKIA completed 27 reviews* in FY2019-20 and achieved 90 percent Audit Coverage (19 of the 21 risk areas on the Work Prioritization Plan were covered by at least one review) with 100 percent of the high-risk processes and applications listed on the Work Prioritization addressed by at least one review and 67 percent of the high-risk units being covered by at least one review.

*Includes reviews where the results have been communicated to the client through a closing presentation and/or memorandum or report.

	Processes			Units			Applications	
	Risk Area	**Audit Count**		**Risk Area**	**Audit Count**		**Risk Area**	**Audit Count**
1	Contract Management	21	1	Alumni Associations	1	1	In-House Applications	2
2	FERPA	7	2	Shared Services	0	2	Server Configuration	1
3	HIPAA	6	3	Service Centers	7	3	Unit Application	2
4	Conflict of Interest	21	4	501c3 Entities	0			
5	Regulatory Compliance	21	5	KRS Required	1			
6	Student Fees	3	6	Academic Units	4			
7	Agency Accounts	4						
8	Procurement Cards	14						
9	Cash Handling	9						
10	Vendor Master File	3						
11	Deprovision	5						
12	Capital Construction	1						

EFFECTIVENESS
METRICS

UKIA staff alternate reciting the mission statement and promoting UKIA's values of professionalism, ethics, communication, and knowledge at every staff meeting. In this culture, the objectives that mission encompasses are not lofty goals, but standards and expectations. In fact, UKIA employs seven different metrics to assess its performance and evaluate the efficiency and effectiveness of staff activities in accordance with that mission.

The FY2019-20 metrics show that UKIA is achieving its goals of minimizing risk across the University through high productivity, increased audit coverage, and improved remediation. Moreover, these achievements were reached while coming in substantially under the budgeted hours for audit duration.

Clients overall are quite satisfied with the audit results, giving high marks to UKIA staff for their professionalism and expertise, the reports for the clear way the concerns are communicated, and the pragmatic recommendations that promote lasting change for the University.

REMEDIATION
80% - 95.2%

UKIA changed the way that this metric is calculated in 2019 to better demonstrate how risk is being reduced across the University. While it formerly assessed the percent of observations accepted by the units, the Remediation Metric now calculates the percent of findings that had been remediated by the time UKIA conducts a follow-up review (approximately 12-18 months after the audit results are communicated). UKIA completed four follow-up reviews in FY2019-20, with remediation ranging from 80 to 95.2 percent **(Goal: 100 percent)**.

UKIA tracks the number of people who contact the office for guidance each year. In FY2019-20, UKIA had 35 contacts **(Goal: 48/year)**.

35
CONTACTS

3.82
CLIENT SATISFACTION

Client satisfaction with UKIA's work averaged 3.82 out of five for the year, with several clients commending the auditors for their professionalism, responsiveness, and how easy they were to work with. Because UKIA uses these surveys to determine how staff can continue to improve, based on this feedback, UKIA will work to minimize disruptions by decreasing the number of times clients are contacted for information **(Goal: 3 of 5)**.

UKIA normally conducts fraud training classes several times throughout the fall and spring semesters. While training was suspended in March, the fraud classes that were taught during the first half of the year were attended by 146 UK employees. Attendees gave these classes an overall score of 4.33 out of five and those who included comments noted that they found the training both interesting and helpful **(Goal: 3 of 5)**.

TRAINING PARTICIPANT SATISFACTION
4.33

22
PARTNERSHIPS

As a means of measuring collaboration with other entities across the University, UKIA tracks staff involvement in non-audit activities with other units that have a joint deliverable. Most notably, this included the Finance and Administration Training Transformation Project **(Goal: 6/year)**.
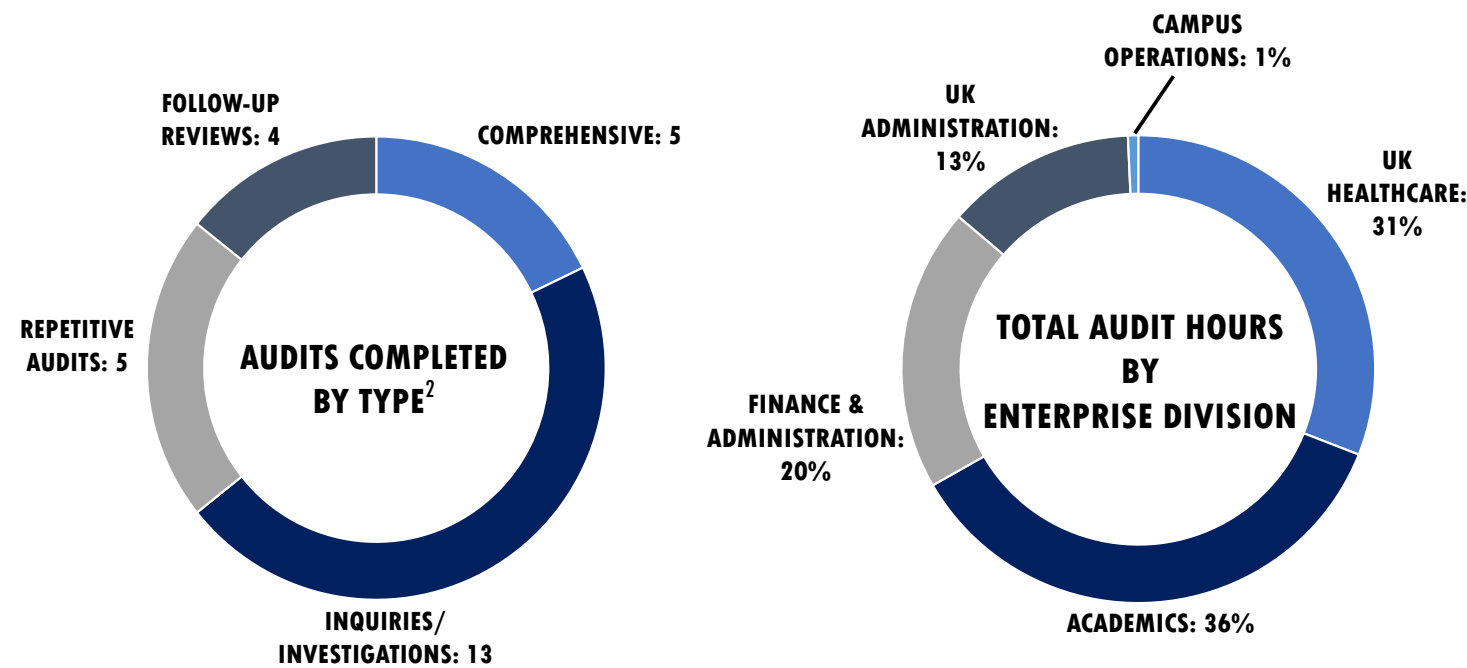
73.29%
PRODUCTIVITY

UKIA audit consultants and managers logged 17,294 hours in FY 2019-20, of which 16,793 hours were devoted directly to audit projects. The productivity rate (percentage of total charged hours focused on constructive audit work) was 73.29 percent for staff and 62.26 percent for managers.[1] This was achieved despite the departure of two auditors in the last quarter of the year, and the transition to working from home due to COVID-19 **(Goal: 75 percent for Auditors/60 percent for Managers)**.

[1] Productive hours exclude leave, professional development hours, meetings, CAE projects, general administrative duties, and time focused on contacts and partnerships.

22.71% Under Budget
AUDIT DURATION

UKIA's transition from a static annual work plan to a dynamic Work Prioritization Program that adjusts and expands in response to emerging risks meant that calculating audit duration by weeks was no longer feasible. Consequently, UKIA established an hourly budget for each audit type based on historical data (shown below).

AUDITS COMPLETED BY TYPE[2]

- FOLLOW-UP REVIEWS: 4
- COMPREHENSIVE: 5
- REPETITIVE AUDITS: 5
- INQUIRIES/ INVESTIGATIONS: 13

TOTAL AUDIT HOURS BY ENTERPRISE DIVISION

- CAMPUS OPERATIONS: 1%
- UK ADMINISTRATION: 13%
- UK HEALTHCARE: 31%
- FINANCE & ADMINISTRATION: 20%
- ACADEMICS: 36%

[2] Includes all reviews for which the results have been communicated to the client through a closing presentation and/or memorandum or report.

Audit Type	Budgeted Hours by Audit Type	Total Hours Budgeted for Completed Projects[3]	Total Hours Expended on Completed Projects	% Budget
Standard Comprehensive	1,000	3,000	1,324	44.13%
Expanded Comprehensive	1,500	1,500	1,611.75	107.45%
Standard Follow-up Comprehensive	500	-	-	-
IT Audits	1,000	-	-	-
Data Analytics	500	-	-	-
Consultations	500	-	-	-
Repetitive Audits	200	1,000	1,057	105.7%
Follow-up Repetitive Audits	150	600	914	152.33%
Investigations	500	5,000	3,661.75	73.24%
Inquiries	40	80	73.25	91.56%
TOTAL	5,890	11,180	8,641.75	77.29%

[3] Includes all reviews for which the final report has been distributed.

EFFICIENCY METRICS

CONFLICTS OF INTEREST:

ONE OF THE LARGEST PROJECTS EVER UNDERTAKEN BY UKIA

From admissions scandals, inappropriate benefactor agreements, researchers competing against their sponsor universities, and foreign influence; conflicts of interest (COI) incidents at universities across the nation have been headline news over the last year. As COI may exist any time a person uses his or her position for personal or professional gain, such incidents are unfortunately more common than we would like to believe.

To better assess the risks at the University of Kentucky, last July, UKIA engaged in a University-wide, in-depth review of the policies, procedures, systems, and practices related to conflicts of interest.

CONFLICTS OF INTEREST BY THE NUMBERS (as of June 30, 2020):

- Engagement: July 19, 2019

- Consultants Engaged: Deloitte (kick-off meeting December 11, 2019)

- Benchmarking: Two universities

- Areas Evaluated: UK HealthCare/Research/ Academics/Operations/ University Leadership

- Number of Personnel Hours: 1,800.75

- Number of persons interviewed: 48

- Stakeholders/ Partnerships: 6

- UK COI Policies Analyzed: 23

This review is one of the largest, most complex audits UKIA has ever undertaken in its 52-year history. In fact, during FY2019-20, UKIA consultants invested more than 1,800 hours evaluating the plethora of policies and procedures, governance structures, committees, collection systems, and actual practices related to COI. UKIA interviewed dozens of faculty and staff in UK HealthCare, research, academics, and operations, as well as University leadership and the Board of Trustees. UKIA consultants also met with internal audit departments at two universities to establish benchmarks and assist with recommendations. As it is far too large of a project to manage entirely on its own, UKIA also brought in the audit and consulting firm, Deloitte, to review the various mechanisms used to capture COI and assess the adequacy of the information being captured.

UKIA anticipates moving into the second phase of its review in Fall 2020. At that time, UKIA will begin conducting expansive testing which will ultimately incorporate a continuous auditing program to provide ongoing reasonable assurance that any potential COI will be captured, reviewed, and properly managed at the University of Kentucky.

FY2019-20 BUDGET

FY2020-21 GOALS

UKIA's annual budget for FY2019-20 exceeds $1.9 million. The budget was adjusted in the Spring of 2020 to reflect personnel changes and environmental/operational modifications made in response to COVID-19. While these adjustments were substantial, they have not hampered UKIA's effectiveness or ability to commence reviews. In fact, UKIA has seen several positive changes.

In FY2019-20, UKIA saw the departure of two auditors, but new position shifts have enabled UKIA to perform more nimbly, and enhanced the ability to identify, trend, communicate, and mitigate risks across the University. The department transitioned its Data Coordinator Specialist to a new Junior IT Auditor position. Additionally, UKIA converted a temporary employee to a regular full-time Audit Assistant, whose main responsibility is to aid UKIA's audit consultants wherever needed to help maximize their productivity.

Category	Budget
Personnel	$1,725,000
Travel	$10,000
Training/Registration	$10,000
Operations	$159,000
TOTAL	$1,904,000

STATEMENT OF WORK

- Ensure the mechanism(s) for capturing information provides adequate coverage.

- Ensure the information captured through these mechanisms is sufficient.

- Verify the information captured is reviewed and processed appropriately.

UKIA has two main goals for FY2020-21, data analytics and training, both of which are designed to help mitigate risk across the enterprise as the University navigates through the COVID-19 environment.

DATA ANALYTICS

UKIA has created a data analytics team to detect deviations in University workflows and to expand expertise in creating new requirement documents. This team is comprised of eight members assigned to the following roles:

- Project Development – Works with stakeholders to understand the business needs, gather functional and non-functional requirements for the projects, document, and translate for the programmer.
- Programming – Writes the scripts based on information from the developers.
- Validation – Analyzes the results file for accuracy.
- Communication – Conveys audit results to the client and stakeholders.

UKIA will be partnering with process owners to develop an analytics program that provides continuous detection and analysis to minimize risks across the University.

TRAINING

The current environment and client demands require training to be offered in a more accessible format. Therefore, UKIA will be adding virtual courses to its curriculum to provide remote access for all employees whether they work on campus, in offices across the Commonwealth, or from home.

UK Internal Audit