UK Internal Audit

FY 2025-26
ANNUAL REPORT

A LETTER FROM OUR CHIEF ACCOUNTABILITY OFFICER AND AUDIT EXECUTIVE

To the University Community,
From Integrate Blue and Champions Blue to the Project Blue Connect initiative, there is no question that FY 2026 brought with it a whirlwind of activity and monumental change for the University. UK Internal Audit (UKIA) has worked hard to stay one step ahead, anticipating the opportunities and potential pitfalls that are inherent to such shifts to assist leadership in achieving their goals for the enterprise.

To do that, one word comes to mind to describe our team this past year – nimble. Propelled by the first principle of UKIA's 2025 Strategic Plan, we have emphasized internal training and professional development so that we can offer meaningful insights and pragmatic guidance to protect and position UK for success. Accordingly, our auditors have had to be nimble to master new policies, absorb new processes, digest new organizational structures and understand the impact all of this will have on the organization against the backdrop of audit trends.

This flexibility, coupled with more than 500 years of combined cross-industry expertise also enables UKIA to be responsive. As you will learn as you read this report, whether we are asked to provide guidance regarding the appropriate use of artificial intelligence to various committees, insights regarding contracting and training to process owners or procurement trends to University Business Officers, we are able to respond timely – and deliver focused messaging to specific audiences – because we have the experience and we continue to invest in data analytics and new audit types to expand the breadth of knowledge we can offer to assist leadership in their decision-making.

But none of this does any good if it is not communicated. For this reason, UKIA has been more intentional than ever with its outreach. This past year, I, along with the deputy chief accountability officer and audit executive, increased the number of regularly scheduled meetings with individual University leaders and process owners. We assembled a hybrid traveling team of healthcare auditors for the sole purpose of forging relationships with executives at our community hospitals. And we developed customized risk snapshot presentations (see page 13) to keep management apprised of audit trends impacting their areas.

While many internal audit teams provide a written report before moving on to the next audit on their list, UKIA's agility, attentiveness and deliberate touchpoints are "force multipliers" that are helping to drive positive, long-lasting change and reduce risk for the University. I am extremely proud of the work the entire UKIA team is doing for and alongside this great University and I am excited to share this year's story with you.

Joe Reed, Chief Accountability Officer and Audit Executive (CAOAE)

TABLE OF CONTENTS

MISSION STATEMENT

Our mission is to support UK in its pursuit of excellence by providing expert analyses and advice to champion the achievement of institutional objectives.

UK INTERNAL AUDIT *By the Numbers*

210 YEARS OF AUDIT EXPERIENCE

AUDIT DURATION
26% ↓ BELOW BUDGETED HOURS

PRODUCTIVITY
75% AUDIT STAFF (GOAL: 75%)
64% AUDIT MANAGERS (GOAL: 60%)

★★★★☆
3.9/5.0 CLIENT SATISFACTION RATING

572 YEARS OF PROFESSIONAL, NON-AUDIT EXPERIENCE

27,505 TOTAL HOURS PERFORMING INTERNAL AUDIT SERVICES

1 INAUGURAL STRATEGIC ADVISORY COMMITTEE

34 AUDITS COMPLETED

89.2% AVERAGE REMEDIATION SCORE ACHIEVED BY UNIVERSITY

50 AVERAGE NUMBER OF TRAINING HOURS PER AUDITOR

13 INVESTIGATIONS COMPLETED
9 INQUIRIES CLOSED, UNSUBSTANTIATED

26 POLICIES REVIEWED BY THE ACCOUNTABILITY OFFICE

4 CONSULTATIONS COMPLETED

OUR SERVICES

Achieving our mission would not be possible without the diverse knowledge of our audit staff. In addition to more than 200 combined years of service in internal and external auditing, they also possess decades of experience in areas such as accounting, budgeting, finance, healthcare operations, information technology, procurement and human resources. Each year, we recognize one staff member, nominated by their peers, who demonstrates a commitment to advancing our mission while exhibiting exceptional performance, work ethic, work product, attitude and character. This year's honoree is shown on the next page.

ASSURANCE

Assessments

Evaluation of a unit's functional responsibilities, processes and technology for high risks and consideration in our annual Work Priorities

Comprehensive reviews

Broad-based evaluation of a unit's governance, regulatory compliance, financial integrity, operational effectiveness, asset safeguarding and information security to identify risks and strengthen the overall control environment

Data analytics

Examination of large, complex data sets to determine exceptions and anomalies

Repetitive reviews

Targeted, narrowly-scoped evaluations of higher-risk administrative and operational processes to assess compliance with applicable regulations and University requirements and promote fiscal stewardship; results are analyzed collectively for trends and enterprise-wide risks

Investigations

Examination of events identified through allegations, data mining or audit activity that may have resulted in monetary or physical loss to University; validate event, quantify the loss and determine the root cause

IT reviews

Evaluation of technology governance, systems, applications, infrastructure, data and IT-related controls to assess the University's cybersecurity posture and safeguarding of information and technology assets

Follow-up reviews

Assessment of a client's progress in remediating findings noted in the initial review

ADVISORY

Consultations

Mutually agreed-upon engagements that focus on process vulnerabilities and operational opportunities to provide insights and reasonable assurance

Training

Educational sessions that leverage insights, trends and lessons learned from UKIA's assurance, advisory and accountability activities, as well as emerging issues across higher education and other relevant environments

Partnerships and stakeholder outreach

Intentional touchpoints with University leadership and process owners to share trends and insights from our activities and support continuous improvement across the enterprise

POWERS JONES AWARD WINNER

UKIA presented our fourth Powers Jones award to Kelly Walker, healthcare audit director, pictured to the bottom left, in December. Established in 2022 to recognize excellence in job performance, professionalism and ethics, the Powers Jones award is named after UKIA's first director who led the department from 1958–1977.

The person who nominated Kelly cited how she consistently stepped up to provide continuity and leadership when vacancies occurred. They also noted how Kelly worked tirelessly to ensure the growing workload is managed as the healthcare team's focus has continued to expand, and that staff feel valued, supported and empowered.

"Kelly's willingness to pitch in despite their own workload, to listen and contribute to others, all the while bringing a smile and laughter to the table, is commendable and a true example of a leader," the nominator wrote in the form.

The winner of the Powers Jones award is chosen by a selection committee, who agreed that Kelly has proven to be an invaluable member of the team, worthy of this award due to her dedication, attitude, character and commitment to the unit and staff.

OUR STRATEGIC PLAN

2025-26 Strategic Plan

INVESTING IN OUR PEOPLE. DELIVERING FOR OUR CLIENTS.

The five principles of our 2025-26 Strategic Plan seek to strike a balance between delivering for our University clients and promoting internal excellence within UKIA. On the following page, we recap those principles, some of their corresponding objectives and the progress that we made this year.

PRINCIPLE 1: ADVANCE UKIA'S MISSION AND VALUES

The first principle of our strategic plan focuses on developing the skills and knowledge of our staff. This year, our team attended training events covering topics ranging from leadership skills to fictitious employees, with many trainings being led by fellow UKIA staff. Our audit staff improved their knowledge and skills by learning to use new testing tools and programs and by working on new audit types or service lines, with 95% of audit staff working on a new or unfamiliar project in FY 2025-26. Staff who had these opportunities reported building upon technical knowledge in areas such as data analytics, report-writing and programming; they also described growth in soft skills such as project management, leadership and strategic thinking, as well as generally gaining a deeper knowledge of the University as a whole.

Additionally in FY 2025-26, UKIA continued to utilize co-sourcing vendors for certain projects within the healthcare and information technology service lines. Audit managers met with our co-source consultants at a February event to discuss healthcare industry and technology-related risks and to develop strategies for future audits and risk assessments.

PRINCIPLE 2: ENSURE ADHERENCE TO STANDARDS, POLICIES AND REGULATIONS

Staying up-to-date and aware of policies and regulations is key to our line of work. Our staff attended trainings recapping recent changes to state and federal policy, along with the Institute of Internal Auditors (IIA) *Global Internal Audit Standards*. Our Accountability Office also maintains a log of policy changes (institutional, local, state and federal) as a resource for UKIA staff. Additionally, we launched a series of Risk Snapshot meetings tailored to individual units, further detailed on page 13.

PRINCIPLE 3: LEVERAGE EMERGING TECHNOLOGIES

Adopting emerging technologies is critical in a rapidly evolving business landscape. This year, UKIA began integrating artificial intelligence (AI) into our own processes to improve audit efficiency and enhance assurance through extended testing capabilities. We also performed an enterprise-wide AI usage assessment, piloted "shadow AI" assessments to ensure AI's safe and effective use across the University and expanded our use of data analytics (see page 11). Additionally, CAOAE Joe Reed continued to serve on the UK Commonwealth AI Transdisciplinary Strategy (CATS AI) Task Force.

PRINCIPLE 4: FOSTER STRATEGIC COLLABORATION AND RESOURCE OPTIMIZATION

In 2025-26, UKIA hosted 36 meetings to communicate key updates and compliance risks (see page 13). Our advisory services achieved a 300% increase in consultation projects completed over FY 2024-25 (see page three). Outside of the University, we hosted the Kentucky College and University Auditors Meeting (see page 12).

PRINCIPLE 5: SUPPORT STUDENT SUCCESS

To help UK students grow academically and professionally, we employ part-time student audit assistants to work alongside our staff. To learn more about our student program, see page 14.

STRATEGIC PLAN PRINCIPLE 1

ADVANCE UKIA'S MISSION AND VALUES

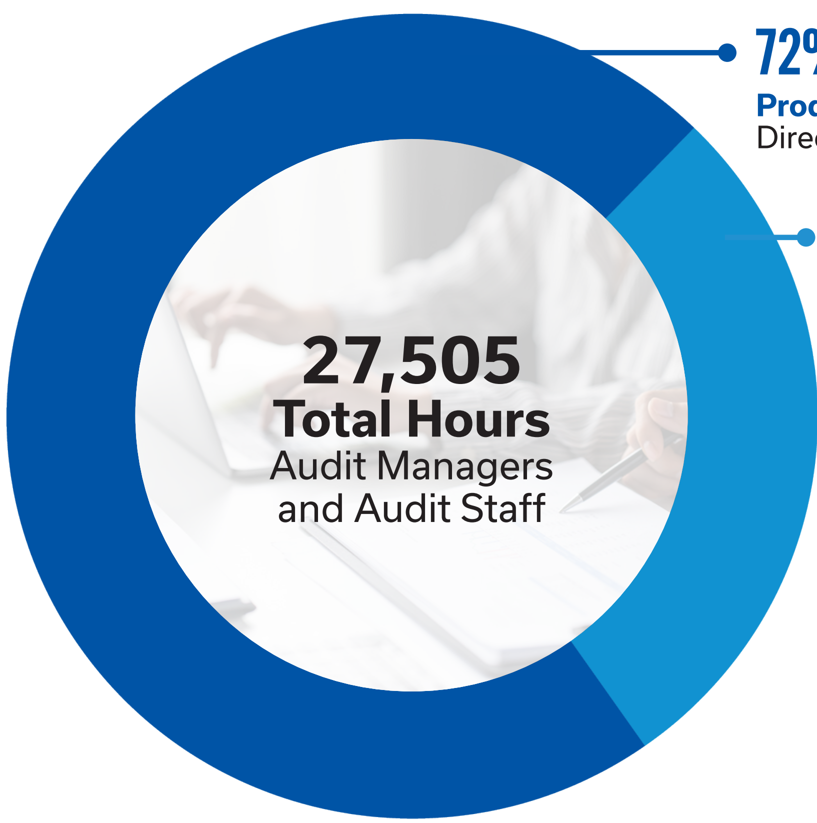
Measuring Our Productivity

In FY 2025-26, UKIA's team of dedicated auditors logged 19,792 hours of "Productive Time," the time dedicated to performing direct audit work steps and/or stakeholder outreach. This is defined as the time invested in communicating audit results, trends and other insights to our clients, the process owners, program partners and other relevant stakeholders, as well as University leaders. In FY 2025-26, UKIA's Productivity was as follows:

- **Audit Managers:** 64 percent, four percent greater than the goal of 60 percent
- **Audit Staff:** 75 percent, meeting the goal of 75 percent

This marks the first year since FY 2020-21 that both manager *and* staff productivity goals were achieved. We attribute this, in part, to the increasing role of our infrastructure team, which includes our business, administrative and communications staff, to support our professional auditors, allowing them to focus more time on their critical project activities.

The balance of auditors' other time was formerly referred to as "Non-productive Time" but was recategorized as "Infrastructure Time" this year. These hours totaled 7,713 hours and were focused on non-audit activities that are key to internal department operations and knowledge growth, as detailed below.



72%

Productive Time
Direct audit work and stakeholder outreach

28%

Infrastructure Time
Non-audit work related to department operations. Predominant areas included:

- **64% General Administration:** Staff meetings, email review and other routine office procedures
- **20% Business Enablement:** Strategic planning, audit universe analysis and IT support
- **13% Professional Development:** Departmental or University training courses, webinars and industry conferences to achieve or maintain professional certifications

Staff Training

As part of our commitment to professional development, our audit staff completed just under 1,000 total hours of training in FY 2025-26, averaging about 50 hours per auditor. In addition to these in-person and virtual events, a different employee begins our staff meeting each week by reciting our mission statement and presenting on a topic related to one or more of our four values: professionalism, ethics, communication and knowledge (P.E.C.K).

This year, staff touched on a variety of subject, such as cybersecurity trends, employee well-being, effective teamwork and process automation, to name a few. These presentations enable our staff to connect their unique perspectives and areas of expertise to our shared mission while imparting knowledge to the rest of the office.

Employees who attend a conference are also given time during our staff meetings to present on a class they found particularly valuable. Throughout the year, staff attended and shared courses from the College Business Management Institute (required for all new UKIA employees), AuditCon 2025, the Association of Healthcare Internal Auditors Nashville Regional Conference and the Great Audit Minds Conference.

Lastly, in June 2026, our office attended a training session on effective prompt writing and data privacy within Microsoft Copilot, hosted by Phygital Labs through the University's AI Literacy and Training Hub.

STRATEGIC PLAN PRINCIPLE 2

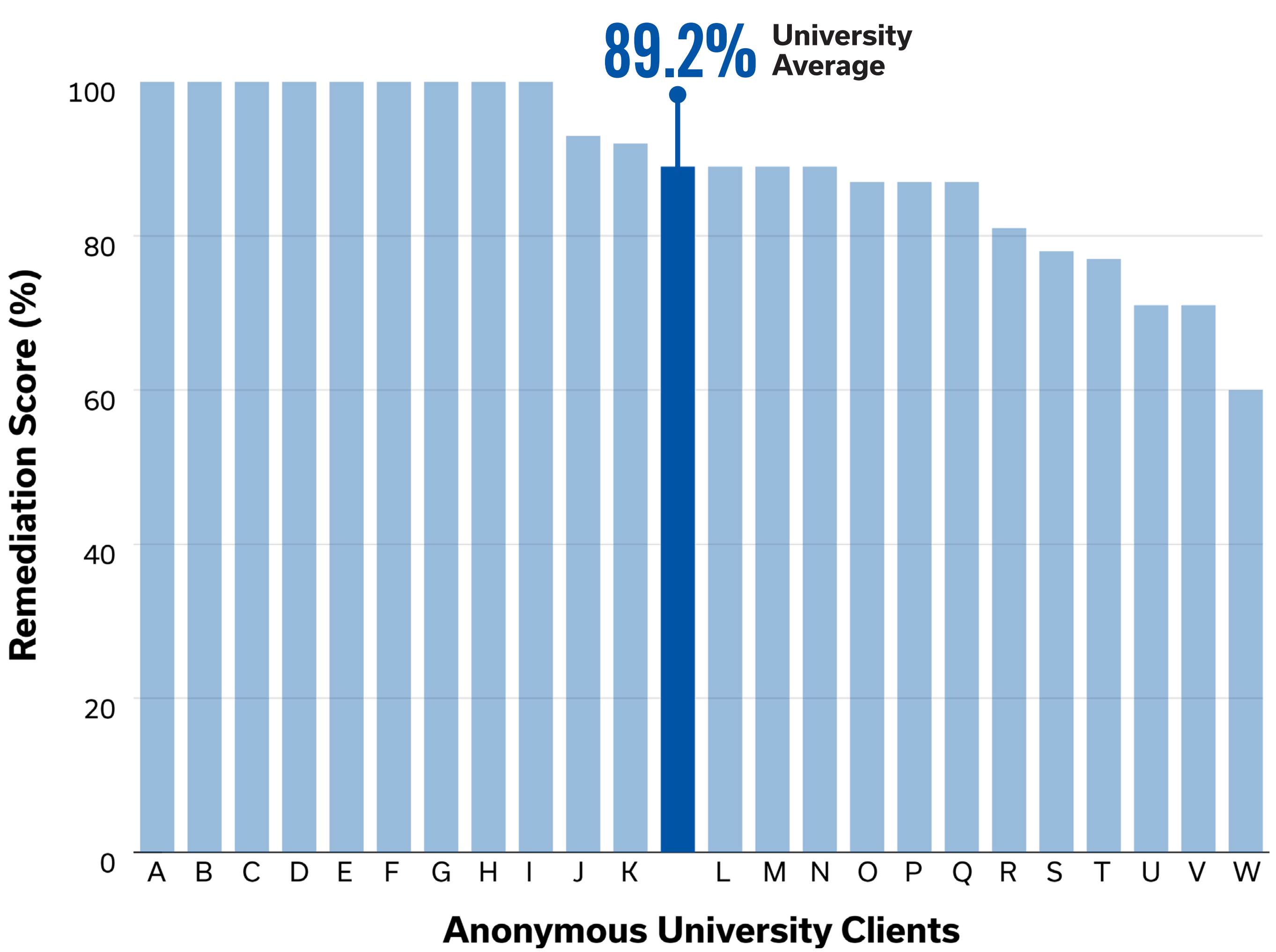
ENSURE ADHERENCE TO STANDARDS, POLICIES AND REGULATIONS

University Remediation

UKIA conducts a follow-up review for each of our audits to assess our clients' progress in mitigating identified risks. Remediation scores are calculated by assigning a three (3) for each finding that was satisfactorily resolved, a two (2) for each finding for which progress was partially satisfactorily or a zero (0) for findings where progress was unsatisfactory. These scores are converted to a percentage then averaged to calculate the University's overall remediation score for the year, with a goal of 100 percent.

In FY 2025-26, UKIA completed 23 follow-up reviews covering topics such as asset verification, procurement card practices and web application security. The University achieved an average remediation score of 89 percent, equal to its average score from the prior year despite a 360 percent increase in completed follow-up reviews.

This score highlights the combined impact of our risk-mitigation efforts and our clients' commitment to strengthening their operations.



STRATEGIC PLAN PRINCIPLE 3

LEVERAGE EMERGING TECHNOLOGIES

Artificial Intelligence Assurance

In November 2025, President Capilouto announced the University's commitment "to becoming an AI university — where AI enhances how we teach, learn, research, heal and serve the Commonwealth." UKIA is determined to serve as a partner in this transformation while giving our staff the tools to more efficiently and effectively support our institution.

In FY 2025-26, we engaged an assessment to identify areas of opportunity within the University's developing enterprise AI governance structure. This assessment is running concurrently with unit-level shadow AI audits, which evaluate how individual departments are using AI in practice. Collectively, these initiatives intend to provide leadership with a comprehensive view of the University's AI landscape, from governance and oversight to adoption and implementation.

Additionally, we are training our staff to more effectively use AI in their audit work, beginning with building foundational AI competencies for all employees before transitioning to targeted training modules. We participated in two staff-wide AI trainings in FY 2025-26 — covering AI-enhanced audit work, effective prompt writing and data privacy — in addition to numerous AI-oriented presentations during our weekly staff meetings.

In the coming fiscal year, we plan to develop a pilot program in which AI-assisted outputs are compared to traditional audit work then deploy specialized AI tools in high-impact areas while integrating AI capabilities into our audit management system.

Data Analytics Utilization

UKIA's analytics expanded significantly in FY 2025-26 to build our catalog of active analytics while regularly providing our audit consultants with the data they need to perform their work. Five new analytics were launched in FY 2025-26 which provide continuous auditing to identify the following:

- **Aging Vendors:** Vendors with no procurement activity during the past 60 months, who may need to be reviewed, updated or removed.
- **Ghost Students:** Student records that may be fictitious, fabricated or otherwise unsupported, with the objective of detecting schemes intended to improperly obtain financial aid funding.
- **Overawards:** Students whose total financial aid and scholarship awards exceed their calculated cost of attendance, which may indicate awards requiring review or adjustment.
- **Pell Grant Eligibility:** Students who have been identified as ineligible for Pell Grant funding by Student Financial Aid and Scholarships but still received Pell Grant awards.
- **Shadow AI:** AI tools or subscriptions purchased outside established procurement, IT security, or technology review processes for use by an individual unit, department or employee.

There are 11 more analytics in development, all of which are aimed to provide UKIA and University leadership with better insight and analysis and enable better decision-making regarding financial, human resources, academic, healthcare and research operations.

STRATEGIC PLAN PRINCIPLE 4

FOSTER STRATEGIC COLLABORATION AND RESOURCE OPTIMIZATION

Healthcare Services Expansion

As the University's healthcare enterprise expands across the Commonwealth, UKIA has grown our healthcare team to ensure we have the resources and expertise necessary to mitigate emerging risks. We welcomed two new auditors, Umeka Conner and Kirstin McCutchan, to the team in FY 2025-26. The new team members will focus on engagements at UK King's Daughters (UKKD) and UK St. Claire, community health centers that have recently joined UK HealthCare (UKHC).

This year, our work priorities in healthcare were guided by our recently completed revenue cycle risk assessments for both UKHC and UKKD, which identified the highest risk processes. These assessments also helped us to determine shared areas of elevated risk, allowing us to conduct parallel reviews of revenue cycle areas, including emergency department charge capture as well as scheduling and registration, at both UKKD and UKHC to provide enterprise-wide risk coverage. Accordingly, our healthcare activity this fiscal year focused on the following nine areas:

- Asset management
- Capital construction
- Cash handling
- Contract management
- Data security
- Drug diversion
- Labor and compensation
- Procurement management
- Revenue cycle

The breadth of these projects highlights not only the complexity of healthcare operations and regulations but also the development of our team into trusted risk advisors. We also continued to use resources from our co-source partner and expanded the availability of our other service lines — including accountability, consultations, investigations, analytics, information technology as well as financial and business operations — to enhance our coverage of UKHC's evolving risk landscape.

2026 Kentucky College and University Auditors Meeting

UKIA hosted the 2026 Kentucky College and University Auditors Meeting, bringing together auditors from six institutions across the commonwealth to discuss emerging risks in higher education.

The day began with a presentation on shadow AI audits from UKIA Information Technology Director Josh Parker, who shared tips for evaluating unauthorized AI use. UKIA Accountability Office and Conflicts of Interest Program Director Sean Clark followed with a presentation on regulatory changes affecting higher education. UKIA Deputy Accountability Officer and Audit Executive Martin Anibaba wrapped up the morning sessions with a discussion on key changes to the Institute of Internal Auditors' *Global Internal Audit Standards* and how to implement them.

Western Kentucky University Director of Internal Audit Bruce Weisman kicked off the afternoon with a presentation on leadership. UKIA Principal Analytics and Investigations Auditor Brennan Sidor along with Principal Investigations Auditors Lee Walker and Tiffany Welch then discussed the rise of ghost students and ghost employees. They shared common indicators of these fraud schemes as well as strategies to prevent, identify and investigate them.

Attendees participated in breakout sessions throughout the day to dig deeper into the topics and collaborate on solutions to challenges they have faced. The meeting ended with an exercise in which groups developed an audit plan for trending risk areas in higher education, including motor vehicle records, international travel, business continuity and data centers.

Stakeholder Outreach

UKIA understands that driving positive change for the University means that communication doesn't end with the audit report. Rather, it is just the beginning. That is why, in FY 2025-26, we renamed our former Partnerships metric to better communicate what it actually is: Stakeholder Outreach. This metric reflects and documents the value we place on forging ongoing relationships with our stakeholders. The information exchanged helps drive operational improvements across the enterprise and shapes our work priorities for the future.

This year, our audit consultants devoted nearly 574 hours to stakeholder outreach — a 28 percent increase over FY 2024-25 (448 hours). UKIA's leadership and infrastructure team, who do not track their hours, also invested many hours preparing the presentation materials used in these meetings to apprise them of UKIA's insights and activity impacting their operations. A list of the areas with which these ongoing meetings are held is shown below.

The CAOAE alone held 36 meetings this fiscal year, 12 more than our annual goal, focused on stakeholder outreach. One such outreach project has been particularly successful. The CAOAE met with leaders in Human Resources and the Office of Faculty Affairs and Development to share the results of a special project to assess how the University can better prepare college department chairs for their role and make their terms more rewarding both for themselves and the departments they oversee. As a result of these meetings, the University is developing enhanced training modules to better equip these key leaders for this and future leadership opportunities which, in turn, is helping them to reimagine the department chair position as an opportunity as opposed to the hindrance they were being asked to endure.

Additionally, in January of 2026, the CAOAE began meeting with University executives to share audit trends relevant to their area and a customized risk profile based on this history. Feedback has been extremely positive, as these presentations, dubbed "Risk Snapshots," not only provide these executives — many of whom are new — with valuable insights and guidance to assist with their decision-making, they are a terrific opportunity to introduce them to the services UKIA provides our clients.

STRATEGIC PLAN PRINCIPLE 5

SUPPORT STUDENT SUCCESS

Student Program

UKIA welcomed student interns Samantha White and Jonah Flueck, pictured to the left, in the summer of 2026 to support the office and gain valuable skills as they start their careers.

Samantha worked with the Accountability Office to assist with its international travel project where she applied her classroom knowledge to real-world scenarios. In this role, she reviewed University travel records to identify employees and students who have traveled abroad on University business. She then verified whether they documented their trips with the University's international travel registries and assessed travel risk and compliance. This project gave her meaningful experience with audit procedures and data analysis while providing the accountability team with additional capacity for other work.

In preparation for a career in accounting, Jonah joined the consulting team to help with its capital construction review. He assisted the team in evaluating contractor pay applications as well as recalculating and reconciling change orders. Jonah also developed a comprehensive list of subcontractors engaged on active capital projects and reviewed contract terms and conditions for testing. Our staff valued the interns' kindness, diligence and eagerness to learn more.

Internal Audit