

Meeting Minutes of the
Audit and Compliance Committee
University of Kentucky
Monday, December 13, 2021

The Audit and Compliance Committee (ACC) of the University of Kentucky Board of Trustees met on Monday, December 13, 2021, in the Gatton Student Center Harris Ballroom.

Chair Claude “Skip” Berry III called the meeting to order at 1:00 p.m.

I. Roll Call

The following members of the ACC were in attendance: Claude “Skip” Berry III, Ray Daniels, Michael Hawse, Elizabeth McCoy, Derrick Ramsey, Bryan Sunderland and Hollie Swanson.

II. Approval of Minutes

Chair Berry reported that the minutes of the September 9, 2021 ACC meeting had been distributed. Trustee Ramsey moved for approval of the minutes, and Trustee McCoy seconded the motion. The minutes were approved as presented.

III. Reports and Discussion Items

A. Fiscal Year (FY) 2021-22 Quarter 1 Activity Update and Required Independence Confirmation

Chair Berry introduced Chief Accountability Officer and Audit Executive Joe Reed, to present the activity update for the first quarter of FY 2021-22. Mr. Reed began by discussing the audit cycle, starting with the work prioritization phase. This phase consists of risk assessment protocols and a work prioritization plan which comes before the ACC for approval. He then explained that the next part of the audit cycle is the assignment phase, which is essentially the internal preliminary planning stage. The next phase, engagement, begins with an announcement letter, which ensures that the appropriate entities at the university are aware that a project has been engaged. It is during this phase that all fieldwork is conducted. The phase that follows engagement is reporting, which begins with the closing meeting and ends with the distribution of the final report. Next is the client check-in phase, which typically takes place anywhere from 90-120 days after the final report. The final phase of the audit cycle is the follow-up phase, which is engaged to assess the progress that has been made to remediate the concerns noted in the initial review. Follow-ups are scheduled at an appropriate time after the client check-in, taking into account information learned about the progress during that meeting.

Mr. Reed then referred to a question from the previous September 9, 2021, ACC meeting regarding the number of projects UKIA is engaged in at one time. He explained that, at any given time, there are five to 15 projects underway that are in the assignment

phase and 20-25 that are in the engagement phase. At the same time, there are between five to 15 projects that are in the reporting phase, two to 10 that are in the client check-in phase and an additional two to eight follow-ups that are underway. In conclusion, between 35 to 60 projects are going on at any given time, which showcases the dedication and work effort exhibited by the audit team.

Next, Mr. Reed went into more detail about how the university's risks are categorized into one of seven business risk factors and 20 components, and are then rated high, medium or low. This process is used to quantify the risks and establish UK Internal Audit's (UKIA) work prioritization plan. This plan is organized into the following categories: inquiries, units, processes, information systems, follow-ups and other activities.

Mr. Reed then went over UKIA's projects that were completed during the second quarter of FY2021-22, which included three data mining and two web application repetitive audits. Next, he discussed UKIA's current projects, which consist of five comprehensive reviews, two follow-ups, two data analytics, five web application repetitive audits, 11 procurement card repetitive audits and five inquiries/investigations. Additionally, 15 client check-ins were conducted after the final report distribution.

Trustee Ramsey asked Mr. Reed what UKIA is doing to ensure the cybersecurity of the university. Mr. Reed explained that after the initial cybersecurity review in UK HealthCare, UKIA partnered with both university and HealthCare Information Technology Management to improve communications and prioritized cybersecurity unannounced audits beginning with web application reviews.

Trustee Blonder asked Mr. Reed how it is decided which of the final audit reports are sent to the ACC. Mr. Reed stated that if a report merely involves policy violations, the ACC does not receive it, instead, those reports are sent only to the client.

Trustee Swanson asked if there is a process in place to mitigate the concerns that were noted in the College of Arts and Sciences Department of Biology audit report, as many of the concerns have been occurring over a long period of time. Mr. Reed stated that the oversight, unit and process owner responsibility need to improve, as it is due to the failure of all three that led to the noted issues. It is these three entities working together that will mitigate any future concerns.

Trustee Swanson then asked if there is a way to enhance whistle-blower activities, to which Mr. Reed replied that the university is working on communicating the tools already in place. If individuals do not feel comfortable going to their unit, the university's comply line allows for anonymous reporting of concerns.

Next, UKIA's Deputy Accountability Officer and Audit Executive Martin Anibaba discussed UKIA's compliance with the internal audit professional standards. Mr. Anibaba summarized the results of UKIA's 2020 external quality assessment review which noted three principal categories, 1) attribute standards, 2) performance standards and 3) code of ethics. UKIA received the highest score possible 'generally conforms', in all principal categories. However, Mr. Anibaba explained that there are two attributes with room for

improvement – performing internal assessments on an annual basis and communicating results per requirements to the ACC to ensure more transparency. Mr. Anibaba then shared UKIA’s action plan to internally evaluate and enhance conformance with the Institute of Internal Auditors (IIA) Standards and IIA Code of Ethics between external reviews.

B. Strategic Plan Progress Update

Mr. Reed updated the committee on the progress UKIA has made with its strategic plan which consists of four initiatives, “our people,” “our tools,” “our skills” and “our products.” These initiatives were further broken into seven components for which UKIA internal committees were established to spearhead progress. The timeline for completion of these elements of the strategic plan spans from three months to two years.

For the “our people” initiative, the recruitment, onboarding and retention components either have been completed or are nearing completion. The “our tools” initiative, which consists of workflow and the information management application, is currently on track. The “our skills” initiative, which focuses on enhancing training and professional development, is also on track. Mr. Reed explained that the timeline has been revised for the project forecasting section of the “our products” initiative, as additional data is needed on current projects before an analysis can be completed. The project planning portion is on track.

Trustee Daniels asked Mr. Reed to clarify why policy violations do not come to the ACC. Mr. Reed stated that one or two policy violations do not warrant concern or ACC communications, but if there are multiple violations, through UKIA’s risk assessment protocol then an audit would be engaged, and that final communication is then sent to the ACC. Trustee McCoy further clarified that what is being stated as policy violations might be better referred to as a procedure violation instead, such as initializing a document, to which Mr. Reed concurred.

Trustee Swanson asked how students are identified for internships. Mr. Reed answered that UKIA partners with the College of Communication and Information and the College of Business and Economics to recruit student interns. UKIA has had this student program for more than 10 years, which includes a long-term relationship with the College of Business and Economics.

C. Report on FY 2020-21 External Audit

Chair Berry introduced Mary McKinley and Joanie Duckworth of BKD, LLP Certified Public Accountants to report on the FY 2020-21 external audit report. Ms. McKinley stated that almost all of the audit deliverables are complete. The only item outstanding is the uniform guidance federal funds testing. This is due to the federal government publishing the Uniform Guidance (UG) addendum compliance supplement and required testing in early December 2021. Ms. McKinley then discussed the summary of audit results, which are broken down into the auditors’ responsibilities, management judgment and accounting estimates, and financial statement disclosures. Ms. McKinley indicated that the audit resulted in an unmodified “clean” opinion on the FY2020-21 financial statements.

Ms. Duckworth then reported on the audit adjustments, with the first being reclassification between net investment and capital assets and unrestricted net position. Secondly, she discussed the removal of pledge revenue, which is determined to be a contingent pledge. She proceeded by discussing disclosure with management during the audit process, which includes accounting for the Coronavirus Aid, Relief and Economic Security Act funding, the Coronavirus Response and Relief Supplemental Appropriations Act and the American Rescue plan. She also discussed the Medicated Directed Payments and the adoption of Governmental Accounting Standards Board (GASB) statements number 84 and 97 regarding fiduciary activities. She explained that, in terms of communication related to internal controls over financial reporting, there are no identified material weaknesses or significant deficiencies to report.

Lastly, Ms. Duckworth discussed future accounting pronouncements, GASB 87, 91, 92, 93, 94, 96 and 97, to which management is currently reviewing for adoption. These pronouncements include leases, conduit debt obligations, omnibus 2020, and replacement of interbank offered rates, public-private and public-public partnerships and availability payment arrangements, subscription-based information technology arrangements and certain component unit criteria, and accounting and financial reporting for internal revenue code section 457 deferred compensation plans.

D. BKD Agreed-upon Procedures Report

Chair Berry introduced Treasurer Penny Cox, to present the BKD Agreed-upon Procedures (AUP) report. Ms. Cox recognized the Controller, Associate Controller and the team from University Financial Services for their leadership with the audit. She then discussed the AUP for the National Collegiate Athletic Association (NCAA) which requires an independent auditor to review the accuracy and completeness of the university's Department of Intercollegiate Athletics statements. These results came back without exception. She stated that the AUP report out and final report submitted to the NCAA will be reviewed with the University Athletics Committee in February 2022.

Next, Ms. Cox discussed the AUP for compliance with the terms of UK's contract with the state for the management of Eastern State Hospital (ESH) and the Central Kentucky Recovery Center (CKRC). The procedures performed were agreed to by representatives of UK HealthCare and the Department of Behavioral Health, and Development of Intellectual and Disabilities Group. There were no items of concern in the ESH/CKRC report. Ms. Cox then shared that the Kentucky Medical Services Foundation (KMSF) procedures performed were agreed to by representatives of UK HealthCare and KMSF. No significant items of concern were noted in the report.

IV. New Business Items

Chair Berry announced that UKIA will bring the ACC and UKIA Charters before the Committee for their annual review as required by the Institute of Internal Auditor standards at the February meeting.

V. Adjournment

With no further business to come before the Committee, Chair Berry asked for a motion to adjourn. The motion was made by Trustee Sunderland and seconded by Trustee Hawse. The motion carried, and the meeting adjourned at 2:02 p.m.

Respectfully Submitted,
Alan Wood
Editorial Assistant
UK Internal Audit