

Audit and Compliance Committee Meeting
Gatton Student Center, Harris Ballroom
Tuesday, December 13, 2022

The Audit and Compliance Committee (ACC) of the University of Kentucky Board of Trustees met on Tuesday, December 13, 2022, in the Gatton Student Center Harris Ballroom.

I. Call to Order

Chair Claude A. “Skip” Berry III, called the meeting to order at 8:30 a.m.

II. Roll Call

The following members of the ACC were in attendance: Claude A. “Skip” Berry III, Thomas Abell, Brenda Baker Gosney, Lance Lucas, Paula Leach Pope and Hollie Swanson. Cathy Black attended the meeting via Zoom.

III. Approval of Minutes – September 15, 2022

Chair Berry reported that the minutes of the September 15, 2022, meeting had been distributed. Trustee Abell motioned to approve the minutes, and Trustee Pope seconded. The motion carried without dissent.

IV. Reports and Discussion Items

A. FY 2021-22 Quarter 4 and FY 2022-23 Quarter 1 Activity Updates

Chair Berry introduced Chief Accountability Officer and Audit Executive Joe Reed. Mr. Reed opened by introducing the members of UK Internal Audit’s (UKIA) management team in attendance. These members included Information Technology (IT) Manager Wes Justice, Business and Operations Manager Rose Stewart and Communications Manager Julie Hoover-Ernst.

Mr. Reed then transitioned to the Fiscal Year (FY) 2021-22 Quarter 4 (Q4) and FY 2022-23 Quarter 1 (Q1) activity update presentation. Mr. Reed began by outlining UKIA’s seven business risk factors and the 20 associated components that support and quantify UKIA’s business risk assessments. These factors and components help determine the units/areas in which UKIA conducts audits.

Mr. Reed then described several of UKIA’s audit services, including comprehensive reviews, repetitive audits and follow-up reviews. Comprehensive reviews assess the breadth of both business and IT risks, while repetitive audits are unannounced and examine high-risk areas through a narrow scope. UKIA also completes follow-up reviews to determine whether concerns noted during previous audit activity have been remediated.

Mr. Reed summarized UKIA’s completed reviews for Q4 of FY 2021-22, which included one comprehensive review, three repetitive audits and one follow-up review of an inquiry.

Additionally, UKIA completed four inquiries and investigations, all of which were unsubstantiated. Three were closed without distribution to the ACC, while one yielded process vulnerabilities in the associated unit that were subsequently reported to the unit and the ACC.

Mr. Reed explained that all completed activity is compiled into an audit coverage metric to gauge the progress of UKIA's planned activity and to determine whether enough work was performed throughout the university's processes, units and information systems to sufficiently address risks identified in UKIA's work prioritization.

Proceeding to FY 2022-23, Mr. Reed outlined UKIA's work prioritization plan for the year, which accounts for both planned and unplanned activity. As of September 30, 2022, UKIA had six comprehensive reviews in progress, four repetitive audits as well as eight consultations/partnerships. Mr. Reed explained that consultations/partnerships are collaborative activities in which UKIA works directly with a client or unit through agreed-upon procedures.

UKIA was also actively engaged in two data analytics, one of which proactively identifies conflicts of interest related to employees who are paid as vendors, while the other identifies improper timekeeping activity within the timekeeping system, Kronos. Additionally, UKIA is performing an assessment of the university's data centers, which will guide future activity. Mr. Reed ended the "active" portion of the FY 2022-23 Q1 presentation by noting UKIA's three in-progress follow-up reviews for a comprehensive audit, an assessment and a repetitive audit as well as six inquiries/investigations.

Mr. Reed then summarized UKIA's completed activity for Q1 of FY 2022-23, which included 11 repetitive audits, two follow-up reviews and four inquiries/investigations. Mr. Reed explained that the goal of follow-up reviews is to support the remediation of audit observations; therefore, units that receive a remediation score of less than 75 percent must provide a plan to address all outstanding concerns.

B. FORVIS Agreed-Upon Procedures Report

Chair Berry then introduced Treasurer Penny Cox. Ms. Cox explained that the Executive Committee of the Board of Trustees submitted the university's fiscal year 2021-22 audited financial statements early to meet the Southern Association of Colleges and Schools Commission on Colleges (SACSCOC) deadline. She shared that during the presentation from the accounting firm, FORVIS, on October 10, 2022, the university received an unmodified or "clean" opinion. The university's overall financial position remains fiscally sound with a strong balance sheet and net position of \$5.788 billion. This was an increase of \$297M or 5.4%.

Ms. Cox then explained that FORVIS performs an annual review and tests UK's business practices to determine adherence to agreed-upon procedures (AUP) with three entities.

The AUP for financial data from UK's Intercollegiate Athletics department was performed "without exception," indicating that no concerns were identified. Ms. Cox noted that the AUP report and final report will be submitted to the National Collegiate Athletic Association (NCAA) and distributed to the University Athletics Committee in February 2023.

Ms. Cox then described UK's AUP for Eastern State Hospital (ESH) and the Central Kentucky Recovery Center (CKRC). FORVIS reviewed the terms of UK's contract with the state for the management of ESH and CKRC. No significant items of concern were noted in the report.

Ms. Cox concluded her presentation by discussing UK's AUP for Kentucky Medical Services Foundation (KMSF), which is used by UK HealthCare and KMSF to assist with monitoring contract compliance. This report noted no items of concern.

V. Adjournment

With no further business to come before the Committee, Chair Berry adjourned the meeting at 8:58 a.m.

Respectfully Submitted,

Skylar Bensheimer
Editorial Assistant
UK Internal Audit