Audit and Compliance Committee Meeting
Gatton Student Center, Harris Ballroom
April 24, 2026

The Audit and Compliance Committee (ACC) met on April 24, 2026, in the Gatton Student Center, Harris Ballroom.

I. Call to Order

Acting Chair Elizabeth McCoy called the meeting to order at 8:49 a.m.

II. Roll Call

The following members of the ACC were in attendance: Janie Greer, Hannah Myers, Paula Leach Pope and Hollie Swanson. Claude “Skip” Berry III attended via Zoom.

III. Approval of Minutes – February 19, 2026

Acting Chair McCoy reported that the minutes of the February 19, 2026, meeting had been distributed. Trustee Pope motioned to approve the minutes, and Trustee Myers seconded. The motion carried without dissent.

IV. Reports and Discussion Items

A. UK Internal Audit’s Use of Innovative Tools to Provide Reasonable Assurance

Acting Chair McCoy introduced Chief Accountability Officer and Audit Executive Joe Reed to discuss the tools UK Internal Audit (UKIA) uses to operate efficiently and effectively. UKIA’s work is guided by three principles: the Institute of Internal Auditors’ *Global Internal Audit Standards*, the University’s strategic plan and UKIA’s strategic plan. The specific tools Mr. Reed covered were data analytics and artificial intelligence (AI).

The intent of using these tools is to modernize UKIA’s work by leveraging emerging technologies to enhance risk monitoring, support compliance and deliver actionable insights. Specific objectives include exploring appropriate AI applications to enhance mission delivery, developing analytics to enable continuous monitoring of high-risk areas, evaluating enterprise-wide risks related to AI and data analytics as well as providing governance and guidance for safe, consistent AI usage across the University. These objectives aim to support strategic alignment across the University, provide multi-faceted assurance and drive continuous improvement.

Mr. Reed then detailed UKIA’s three active data analytics programs. The first, employee vendor match, reviews relationships between employees and vendors for compliance. The second, software application approval, reviews software purchases for adherence to UK Procurement Services’ protocols. The third, fictitious employees, reviews data for indications of employees who appear on the University’s payroll but do not provide agreed-upon services for the University. UKIA evaluates any exceptions identified by these analytics to determine whether there is a valid concern.

Mr. Reed then discussed UKIA's new data analytics program, which focuses on reviewing high-risk general ledger accounts, such as research subject payments and professional contract services. UKIA will select accounts for additional review when expenses allocated to them meet two criteria: payments that are outside of the University's payroll system and payments that are missing unit confirmation and authorization for the service and/or product delivered.

The first step of this program is to identify transactions and spending patterns that deviate from the expected norm, such as unusual dollar amounts, repeated activity or concentrated spending with a certain vendor. The identification will use automated technology to analyze entire data sets of transactions. Any anomalies that are identified will be reviewed by UKIA's Accountability Office.

The Accountability Office will then verify whether the expenses comply with University policy, federal regulations and any other applicable requirements. The Accountability Office will also assess the operational context in which the expenses were incurred to determine if they are appropriate. If an anomaly violates policy or cannot be explained through operational context, it will be evaluated by UKIA's investigation team. This team may contact the associated unit directly to validate potential fraud or misappropriation, identify practices that allowed it to occur and calculate the associated loss.

Some exceptions will be reported to process owners, ad hoc committees and administrators to identify policy gaps, training opportunities, infrastructure weaknesses and oversight concerns. Exceptions stemming from individual misconduct, such as misappropriation, fraud or conflicts of interest, will be reported to University administration and the ACC.

Trustee Swanson asked whether UKIA's incorporation of AI into its processes will allow UKIA to observe whether AI is improving the audit team's efficiency. Deputy Accountability Officer and Audit Executive Martin Anibaba joined the podium to provide an update on UKIA's adoption and optimization of AI, beginning by answering Trustee Swanson's question. Mr. Anibaba said that UKIA is still implementing AI into its processes and intends to assess efficiency gains as it optimizes AI usage.

Mr. Anibaba then outlined UKIA's AI implementation strategy. The strategy is grounded in maintaining a human-in-the-loop approach, meaning every AI-assisted output is reviewed by an auditor, and prioritizes areas where AI can deliver immediate and measurable value, such as data analytics. The strategy includes three pillars: *Adoption of AI, Assurance for AI* and *Advising on AI.*

The *Adoption of AI* pillar focuses on expanding the depth and breadth of UKIA's work without a proportional increase in resources. The first objective in these pillars is to establish governance, controls and core capabilities needed for safe and responsible AI use within UKIA, with a target completion date of June 2026. The second objective is to deploy a pilot program in which AI-assisted outputs are compared to traditional audit work to validate the accuracy, efficiency and consistency of the outputs before broader AI deployment. The target date for the pilot program is December 2026. The third objective, expected to commence in January 2027, is to integrate AI capabilities into UKIA's audit management system and day-to-day workflows. The fourth objective, commencing immediately, is to operationalize AI usage to enhance how UKIA identifies, prioritizes and responds to risk at the University.

The *Assurance for AI* pillar focuses on providing reasonable assurance that risks are identified early and that internal controls are designed and operating appropriately. UKIA has begun shadow AI assessments designed to identify how AI tools are being used across academic and operational units, particularly where use may be unmonitored or decentralized. UKIA expects these assessments to help enhance risk visibility, evaluate control effectiveness, ensure regulatory compliance and develop a scalable, repeatable model for ongoing AI oversight.

The *Advising on AI* pillar focuses on providing the University with consultative support on governance structures, policies and control frameworks to ensure AI adoption is responsible, aligned with institutional values and sustainable. UKIA is conducting an enterprise-level AI consultation focused on embedding preventative assurance early to ensure risks are addressed proactively rather than remediated later. This consultation will help to align departmental AI initiatives with institutional policies, ensure that AI innovation aligns with accountability and transparency standards and coordinate a unified, University-wide governance strategy.

Trustee Swanson asked how UKIA will know when it is finished learning given the steep learning curve of AI. Mr. Anibaba said that UKIA will not know until it is further along in its adoption process, which is why UKIA is taking a deliberate, phased approach to implementation.

B. <u>Executed FY 2025-26 Audit Engagement Letter and Agreed-Upon Procedures Letters for the NCAA, Department of Behavioral Health, Developmental and Intellectual Disabilities, Kentucky Medical Services Foundation and Special License Plate Program</u>

Acting Chair McCoy introduced University Treasurer Penny Cox to present the FY 2025-26 audit engagement letter and agreed-upon procedures (AUPs) letters for the National Collegiate Athletic Association (NCAA), Department of Behavioral Health, Developmental and Intellectual Disabilities, Kentucky Medical Services Foundation and Special License Plate Program.

Treasurer Cox said that during the February 2026 ACC meeting, the ACC approved the treasurer to execute the engagement letter for the University's FY 2025-26 external audit at a scope of approximately $984,000. Treasurer Cox recommended the execution of this core audit engagement with Forvis Mazars, the University's independent external auditor. This engagement was awarded through competitive procurement and includes the audit of the University's financial statements, internal controls, federal awards and required Commonwealth reporting. The FY 2025-26 audit fee is an eight percent reduction from the prior year with no reduction in scope. The engagement maintains full independence, does not delegate management responsibility and aligns with board-level fiduciary duties.

Treasurer Cox said the University also has four AUPs engagements, which are targeted compliance reviews required by external rules or contracts. They do not expand the audit scope and do not involve auditor opinions, but they directly reduce institutional exposure.

The first AUPs engagement is the NCAA financial procedures for intercollegiate athletics, which is required by the NCAA Financial Audit Guidelines.

The second AUPs engagement is a contract review of UK HealthCare's management of Eastern State Hospital and the Central Kentucky Recovery Center, required by the Commonwealth of Kentucky contract.

The third AUPs engagement is compliance testing of the Kentucky Medical Services Foundation, required by the associated governing agreement.

The fourth AUPs engagement is verification of revenue from the Kentucky Special License Plate program, which is required by Kentucky Revised Statute. These funds are segregated by the state and distributed annually to support student scholarships.

These engagements protect the University from audit findings, repayment risk, penalties, bond market and regulatory reliance at a controlled, declining cost.

The ACC had no questions for Treasurer Cox.

C. <u>Forvis Mazars Pre-Audit Report to the Audit and Compliance Committee</u>

Acting Chair McCoy introduced Engagement Partner Jennifer Williams and Director Joanie Duckworth from Forvis Mazars to share the plan for the FY 2025-26 external audit. Ms. Duckworth said the scope of the engagement is to audit the financial statements in compliance with the federal awards of the University. The audit will be conducted in accordance with the auditing standards generally accepted in the U.S., government auditing standards and standards applicable to uniform guidance for compliance with federal awards. These standards require the auditors to obtain reasonable, not absolute, assurance and express an opinion on the financial statements. The final reports are planned to be issued by October 2, 2026, the reporting deadline required by the Commonwealth of Kentucky.

The audit is not designed to provide assurance on internal controls, but any deficiencies that are identified will be reported at the conclusion of the audit. Ms. Duckworth said the engagement letter includes significant risks of material misstatement and Forvis Mazars' audit approach to address these areas, all of which are consistent with the prior year. Forvis Mazars will refer to other auditors within its opinions for the audits of InsureBlue and the Kentucky Medical Services Foundation.

There are two new accounting standards that will be adopted during the year that will impact the financial statements as of June 30, 2026. The first is the adoption of Government Accounting Standards Board Statement Number 103: Financial Reporting Model Improvements, which will eliminate diversity in practice. This will affect management discussion and analysis and impact some categories in the financial statements. The second is the adoption of Government Accounting Standards Board Statement Number 104: Disclosure of Certain Capital Assets, which will require certain capital assets to be identified within note disclosures.

Ms. Duckworth then shared Forvis Mazars' procedures for the consideration of error or fraud, which include engagement team brainstorming, inquiries with management and reviewing accounting estimates for bias.

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

V. Adjournment

With no further business to come before the Committee, Acting Chair McCoy adjourned the meeting at 9:22 a.m.

Respectfully Submitted,

Skylar Bensheimer
Editorial Assistant
UK Internal Audit