Audit and Compliance Committee Meeting
Harris Ballroom, Gatton Student Center
June 12, 2025

The Audit and Compliance Committee (ACC) met on June 12, 2025, in the Gatton Student Center, Harris Ballroom.

I.   Call to Order

Chair Ray Daniels called the meeting to order at 2:30 p.m.

II.   Roll Call

The following members of the ACC were in attendance: Cathy Black, Claude "Skip" Berry III, Janie Greer, Elizabeth McCoy, Hannah Miner Myers, Paula Leach Pope and Hollie Swanson.

III.   Approval of Minutes – April 24, 2025

Chair Daniels reported that the minutes of the April 24, 2025, meeting had been distributed. Trustee McCoy motioned to approve the minutes, and Trustee Pope seconded. The motion carried without dissent.

IV.   Reports and Discussion Items

A. UK Internal Audit's Use of Artificial Intelligence

Chair Daniels introduced Deputy Accountability Officer and Audit Executive Martin Anibaba to share UK Internal Audit's (UKIA) initiatives to protect the University in the age of artificial intelligence (AI) while supporting its use to drive innovation and advance UK's mission. Mr. Anibaba began by detailing how AI adds value to the institution but also presents risks across the University's functional domains of academics, healthcare and administrative units. For example, AI can accelerate research data analysis but may compromise scholarly integrity through "hallucinations" — the generation of false or fictional outputs.

Mr. Anibaba then explained how UKIA is incorporating AI into its strategic plan to increase risk visibility, enhance regulatory compliance and expand its audit coverage while improving efficiency. UKIA has structured its strategy into three pillars: adoption, assurance and advising. Adoption includes four phases and centers on how UKIA will use AI to reduce manual review time, improve consistency and allow auditors to focus on complex, high-risk areas. The first phase is a pilot program to test how AI-supported techniques can help evaluate audit documentation, such as standard operating procedures. This phase is expected to be completed in fall 2025.

Phase two will use AI to analyze trends in audit observations and identify systemic risks. In phase three, UKIA will transition to real-time continuous monitoring of transactional activity and control events. Phase four will focus on using AI to simulate control design

decisions and scenario testing of institutional planning. Overall, these phases aim to make UKIA a more effective and adaptive audit function.

The second pillar of UKIA's AI strategy, assurance, details how UKIA will audit AI usage across the enterprise. UKIA's audit strategy will begin with an assessment of shadow AI to identify tools that are being used outside of the University's approved platforms. Additionally, UKIA is working with the UK Center for Applied AI and Microsoft to establish acceptable use guidelines, classification standards and inventory controls, with the goal of embedding assurance practices into AI design and deployment from the start.

Pillar three, advising, aims to ensure that AI innovation is safe, transparent and aligned with the University's values. UKIA seeks to meet these objectives by clarifying AI ownership and governance expectations, aligning AI-driven innovation with regulatory mandates, ethical principles and institutional goals as well as preventing compliance gaps before they occur.

Following Mr. Anibaba's report, Trustee Swanson praised UKIA's AI initiative. Chair Daniels said that the ability to simulate risk scenarios and organizational changes in phase four of the plan would be particularly significant for the University.

V.   <u>New Business</u>

A. <u>UK Internal Audit's FY 2025-26 Work Priorities</u>

Chair Daniels introduced Chief Accountability Officer and Audit Executive Joe Reed to present UKIA's proposed work priorities for FY 2025-26. Mr. Reed explained that an internal audit plan is mandated by the Institute of Internal Auditor's *Global Internal Audit Standards*. Per the *Global Internal Audit Standards*, the audit plan must abide by the internal audit function's mandate and consider the full range of internal audit services offered. The specific service selected for each audit should support the evaluation and improvement of the organization's governance, risk management and control processes. The plan must also ensure adequate coverage of high-risk areas, such as information technology governance. To complete the plan, the internal audit function must identify the resources necessary to do so and be dynamic when changes occur internally or externally to the organization. Additionally, UKIA's governing documents — the Audit and Compliance Committee Charter and the UK Internal Audit Charter — require a work plan to be submitted to and approved by the ACC at least annually.

Mr. Reed then explained how UKIA determines its work priorities each year. This process has three components: events, UKIA's activities and risk assessments. Events include activities outside of UKIA's control, such as direct contacts and industry events. UKIA's activities include stakeholder outreach, audit engagements and audit trends. Risk assessments are informed by data within UKIA's audit universe repository, which is updated weekly. UKIA quantifies risks within the audit universe using seven business factors and reevaluates risks whenever pertinent changes occur.

Mr. Reed then detailed how UKIA categorizes risks into four areas: processes (tasks that are performed across the University or healthcare system), units (areas with specific

purposes and associated tasks), information systems (tools that store data or transmit data) and continuous/unplanned activities. For FY 2025-26, UKIA selected nine processes, five units and six information systems for prioritization. The processes include business continuity, contract management, drug diversion, healthcare operations, information security management, labor and compensation compliance, medical revenue cycle management, planning, design and construction and University compliance. The units are academic colleges, ambulatory clinics, externally funded academic centers, research programs and centers and student financial aid and scholarships. The information systems include the aforementioned artificial intelligence as well as data centers, disaster recovery, electronic discovery, enterprise applications and unit applications. Like previous years, UKIA's continuous/unplanned activities include follow-up reviews, inquiries and investigations, consultations and stakeholder outreach.

The ACC had no questions for Mr. Reed. Chair Daniels asked for a motion to approve UKIA's work priorities for FY 2025-26. Trustee Swanson motioned to approve; Trustee Black seconded the motion, and the recommendation passed without dissent.

     B. <u>Authorization to Enter Contract with Identified Finalist for Audit, Accounting, Tax and Consulting Services</u>

Chair Daniels introduced University Treasurer Penny Cox to present a recommendation to authorize Procurement Services to enter a contract with the identified external auditor finalist for audit, accounting, tax and consulting services. Treasurer Cox explained that UK *Governing Regulation II: The Board of Trustees* grants the ACC the sole authority to review such recommendations and appoint the University's external auditor. The University issued a request for proposals (RFP) in March 2025 for audit, accounting, tax and consulting services and received three proposals. After receiving presentations from all three firms, the RFP Evaluation Committee recommended Forvis Mazars LLC to be selected for a five-year term with four one-year renewal options. Forvis Mazars LLC has been the University's external auditor since 2016 and is recommended based on their responses to the RFP criteria, reflecting best overall value for the University, and their national ranking as a Top 10 US public accounting firm.

The ACC had no questions for Treasurer Cox. Chair Daniels asked for a motion to approve the recommendation. Trustee Myers motioned to approve; Trustee Black seconded the motion, and the recommendation passed without dissent.

    VI. <u>Adjournment</u>

With no further business to come before the Committee, Chair Daniels adjourned the meeting at 12:58 p.m.

Respectfully Submitted,

Skylar Bensheimer
Editorial Assistant
UK Internal Audit