

MINUTES OF THE AUDIT AND COMPLIANCE COMMITTEE

University of Kentucky Board of Trustees

June 16, 2017

9:30 a.m. – 10:15 a.m. ET

Committee Members Present

Claude A. “Skip” Berry, III (Chair), Mark Bryant, Jennifer Barber, Angela Edwards, David Hawpe and Kelly Craft

Approval of Minutes

The minutes of the May 2, 2017 Audit and Compliance Committee (ACC) meeting were approved as presented.

Reports and Discussion Items

University Financial Services Presentation

Susan Krauss, Treasurer

At the May 2nd meeting, Ms. Krauss reviewed the FY2017 audit engagement letter, which set forth the scope of the work, the responsibilities of BKD and UK, and the related engagement fees. The fees of about \$392,000 include certain agreed upon procedures that BKD will perform. These agreed upon procedures are specifically detailed in three separate engagement letters, included in the meeting materials.

1. The first AUP (Agreed Upon Procedures) letter is related procedures to be performed on financial data prior to submission to the NCAA, which is required by NCAA bylaws.
2. The second AUP letter, details procedures related with the University’s contract with the State for management of Eastern State Hospital and Central KY Recovery Center, which is required by the state.
The third AUP engagement letter details procedures to be performed related to compliance with the KMSF and UK contract. In the past, this AUP engagement has been performed by KMSF’s external auditors, Dean Dorton Allen Ford; however, the Executive Director of KMSF requested that BKD perform the procedures this year.

The final AUP reports will be shared with the Committee in December. Trustee Hawpe asked what the KMSF audit would entail. Ms. Krauss stated the review would be the same as in prior years, only BKD would perform the procedures this year.

UK Internal Audit Presentation

Joe Reed, Chief Audit Executive

Mr. Reed presented UKIA’s FY2018 Budget noting that the budgets for the past four years provided transparency and clarity regarding audit plans and planned activities for the next fiscal years. Eleven benchmarked institutions were contacted to obtain their respective staffing levels with four responding. Currently, UKIA has 3.5 support staff versus one or none for all other benchmarks as UK emphasizes quality control. UKIA has a Business Liaison, a Project Specialist, Quality Coordinator and a Communication staff member. The Business Liaison performs scheduling, purchasing, budgeting and personal matters similar to other institutions with a single support staff person. The other UK support positions streamline the audit process and increase efficiencies by allowing the professional audit staff to focus exclusively on the audit assignment.

The FY2018 budget of 1.8 million represents an increase of 50% over the budget of four years ago. UKIA has grown from 12 total staff members to 17, and from 10 to 13.5 auditors.

- Since the quality assurance review fees of \$20,000 were paid in FY2015, the addition of two full time equivalent positions in FY2016 had little effect on the current expenditures budget.
- The budget for FY2017 reflected a \$60,000 increase from the FY2016 budget due to annual rent which is included in Current Expenditures for FY2017 and FY2018.
- UKIA purchased an application software over a three-year period. Thus, UKIA will not have that expense for the next few years which will result in a residual. This residual can be used for outsourcing to obtain outside expertise.
- UKIA continues to host the KY Colleges & Auditor’s meeting which results in additional incidental income.
- There was an increase in \$90K due to the hiring of additional staff from FY2017 to FY2018.

Mr. Reed asked if there were any questions. Trustee Barber commented that she was pleased that the budget was increased for auditing since this is an important element to the University.

Trustee Hawpe asked if UKIA needed more technology. UKIA has the expertise, the hardware, and the software; it is a matter of incorporating and establishing these into our current work activities.

Trustee Bryant said that he did not know that UKIA paid rent and that UKIA was so far away from campus. Mr. Reed stated that he loved the new office space and that it has ample conference room. Distance from campus had not been an obstacle for UKIA.

Action Items

ACC 1 Proposed 1st Quarter Work Plan FY2018

Mr. Reed presented the first quarter work plan for approval. The work plan will be based on department resources for 11.5 auditors for the first quarter and 12.5 in the second quarter as a new auditor position will be filled by September 1. The 17 staff members include 3.5 support staff, whose hours are not counted for the purposes of creating the Work Plan. Mr. Reed stated that his hours are not counted towards the efficiency of the operation even though he performs audit work. Total hours include both business and information technology auditor hours. Vacation time and scheduled training are taken into account to determine total audit hours during the first quarter.

The work plan activity is categorized into four sections such as the Compliance Program, Business Operations, Information Technology and Continuous Activities. The compliance program gives UKIA an opportunity to review and attest the adherence of the University through unannounced audits and data mining to analyze information and examine exceptions. Business Operations and Information Technology activity will include student billings, athletics, patient accounting, and the center for rural health and excellence. Continuous activities include follow-ups, hosting seminars and partnership events.

A question was asked; what dictates where we go for surprise audits? Mr. Reed stated that UKIA does not randomly choose these audits; they are incorporated into the risk assessment process.

Motion to approve made by Trustee Barber, and seconded by Trustee Edwards. ACC 1 approved.

Adjournment

With no further business to discuss Chair Berry asked for a motion to adjourn the meeting. Motion to adjourn was initiated by Trustee Barber and Trustee Hawpe seconded the motion. The meeting was adjourned.

Next Meeting

September 15, 2017

Respectfully submitted,

Ralph Kimbrough