

MINUTES OF THE AUDIT AND COMPLIANCE COMMITTEE

University of Kentucky Board of Trustees

May 2, 2017

8:00 a.m. – 9:00 a.m.

Committee Members Present

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

Approval of Minutes

The minutes of the February 17, 2017 Audit and Compliance Committee (ACC) meeting were approved as presented.

Reports and Discussion Items

Office of the Treasurer Presentation

Susan Krauss, Treasurer

Ms. Krauss discussed the authorization to execute the engagement letter with BKD for the 2017 external audit. This letter sets forth the engagement objectives and scope for the audit of the consolidated financial statements of the University and the affiliated corporations, plus certain organizational units of the University including UK Healthcare Hospital System and UK Athletics. The engagement also includes audit procedures related to Federal Award Programs, state required reports and certain agreed upon procedures. BKD is responsible for performing a financial statement audit and auditing the University’s major federal reward programs. Management is responsible for preparing the financial statements according to general accepted accounting principles. UK’s management is also responsible for designing, implementing and maintaining internal controls to insure the financial statements are free from material misstatement whether it be due to error or fraud. Additionally, UK must ensure compliance with laws and regulations. Tax services will also be provided by BKD. The cost of this engagement will be about \$392,000 which represents a 2.6% overall increase over the prior year.

BKD Presentation

Jim Creeden, Partner and Joanie Duckworth, Senior Manager

Mr. Creeden discussed that the document contains BKD’s required communication to the governing body about the audit planning and the risk assessment. BKD is hired to provide reasonable assurance and not absolute assurance about the financial statements. The performance of an audit does not relieve the governing bodies of their responsibilities as it pertains to the financials. BKD identifies all significant risks to properly plan for upcoming audit. The primary risks relate to the significant estimates from management. Not only is that a difficult area for management to determine, but also for auditors to audit. As regards to Uniform Guidance, it is BKD’s responsibility to see if the processes have improved.

Ms. Duckworth stated the final audit report and management letter will be delivered on or before Oct 6, 2017, which is the Commonwealth of Kentucky’s recording deadline. BKD will present their report at the December 2017 ACC meeting. Regular communication between BKD and the ACC is critical for the success of an audit, and it is required for items such as fraud involving senior management, critical material weaknesses, illegal acts, material instances involving noncompliance for federal award programs and any other matters the ACC might bring to our attention. Ms. Duckworth reviewed new and future accounting pronouncements issued by the Governmental Accounting Standards Board.

UK Internal Audit Presentation

Joe Reed, Chief Audit Executive

Mr. Reed discussed the risk assessment, process owner communication, and audit selection processes that are necessary for work plan creation. This process includes data collection and how the activity is departmentalized. This process is used to mitigate risk and determine audit selection. We compile the data by processes, units and applications. UKIA’s focus is on the emerging risk and the process governing the risk. The dynamic work plan incorporates these risks to the University in real time. The work plan is updated quarterly. The sources of emerging risks are broken down into four categories: regulations, events, industry trends and UKIA identified risks of previous activities. The regulations include

federal, state and University directives. Events are external to UK and the trends are data we collect from our peers, colleagues and associations. The most important thing is to review for reasonableness, does it make sense. The next step is to determine the audit type, what is the objective, and what is the audit duration. Emerging risks are reviewed immediately. Mr. Reed then presented the dynamic work plan format for fiscal year 2018.

A question was posed by BoT Chair Brockman, "It is my impression that we do audit our investments at the University which are currently 1.3 billion dollars; does that fall under your department?"

Mr. Reed stated "That it does; however, currently the department does not have that expertise at this time."

BoT Chair Brockman responded "Who audits this because I am asking the question because there are hundreds of millions there. What is there to prevent an external source to take money and not report it?"

Mr. Reed stated that "We have that in our database and we will review the risk and take appropriate action."

BoT Chair Brockman stated that "It seems to me that it is the most obvious source of cash that a fraudulent individual might go after in some nefarious manner; but I understand; but I do not want to be reading about this in the future."

Mr. Reed stated "We also have partnerships with the University. University Financial Services is responsible for the accounting piece of monitoring and we are responsible for the auditing piece so we will do our part."

Trustee Britton addressed the BoT Chair Brockman stating that it is harder to commit fraud in the investments and endowments than one might think; it would take a great deal of collusion from many different persons to mishandle any of those funds or assets. Dr. Monday stated that UK has a third party consultant that is an independent verifier. The greatest risk lies with foundations external to a university; however, UK is set up better than most institutions. When UKIA goes into a department they are looking at all funding sources.

Trustee Britton asked about UKIA's staffing level. Mr. Reed stated the University has been very supportive, we currently have 13.5 auditors and 3.5 support staff, as half of the support staff person is an auditor.

Chair Berry asked if there were any other questions. None were asked.

Other Business

Chair Berry wanted to say that the energy and the synergy as well as the team play demonstrated by the audit team was viewed during a visit to the department. Chair Barry wanted to credit the whole department.

Adjournment

With no further business to discuss Chair Berry asked for a motion to adjourn the meeting. Trustee Britton made a motion and Trustee Bryant seconded the motion. The meeting was adjourned.

Next Meeting

Friday, June 16, 2017

Respectfully submitted,

Ralph Kimbrough