

Audit and Compliance Committee Meeting
Gatton Student Center, Harris Ballroom
Monday, December 4, 2023

The Audit and Compliance Committee (ACC) met on December 4, 2023, in the Gatton Student Center, Harris Ballroom.

I. Call to Order

Chair Ray Daniels called the meeting to order at 1:31 p.m.

II. Roll Call

The following members of the ACC were in attendance: Cathy Black, Janie Greer, Elizabeth McCoy, Paula Leach Pope and Hollie Swanson.

Trustee Claude “Skip” Berry III and Trustee Kim McCann attended the meeting via Zoom.

III. Approval of Minutes – September 14, 2023

Chair Daniels reported that the minutes of the September 14, 2023, meeting had been distributed. Trustee Greer motioned to approve the minutes, and Trustee Pope seconded. The motion carried without dissent.

IV. Reports and Discussion Items

A. UK Internal Audit Activity Update for Quarter One of FY 2023-24

Chair Daniels introduced Chief Accountability Officer and Audit Executive Joe Reed to present the University of Kentucky (UK) Internal Audit’s (UKIA) activity update for the first quarter of FY 2023-24. Mr. Reed explained that UKIA conducts its activity according to a systematic approach composed of seven business risk factors, which are further divided into 20 components.

Transitioning to the assurance reviews active at the end of quarter one, Mr. Reed explained that UKIA had three comprehensive reviews in progress, two of which were expected to be completed by the end of December 2023. Comprehensive reviews are longer audits that evaluate both information technology and business operations. These reviews have three phases: planning, fieldwork and reporting. The reporting phase gives clients an opportunity to better understand UKIA’s findings and offer input. This phase also requires clients to provide a remediation strategy that adequately mitigates the identified risks in alignment with the university’s strategic goals.

Mr. Reed then detailed UKIA’s active repetitive audits, which evaluate high-risk areas using the same scope of work and objectives regardless of the unit being reviewed. UKIA had four procurement audits and two asset management reviews in progress as well as a review

of the university's practices and protocols for student financial aid.

UKIA also had three follow-up reviews in progress, which evaluate clients' progress in remediating risks identified in the initial review. Mr. Reed then explained that UKIA had seven active inquiries/investigations, noting that, while inquiries are sometimes unsubstantiated, they often identify improvement opportunities. Lastly, UKIA had one active data analytic, which identifies UK employees who are potentially being paid as a vendor inappropriately. This analytic determined nine potential policy violations and nine additional concerns related to asset misappropriation and/or conflicts of interest.

Mr. Reed then transitioned to UKIA's active advisory activities, which included four consultations and seven partnerships. One such partnership was with the University Budget Office regarding the university's expansion from five Area Fiscal Officers to seven. UKIA's role in this partnership was to communicate trends to the officers related to their areas of responsibility. Mr. Reed detailed another partnership with Procurement Services in which UKIA performed data analysis of procurement card reports from the vendor Card Integrity. UKIA also worked with the Office of the Provost to assist with changes to the university's Willed Body Program for anatomical donations.

Mr. Reed then detailed UKIA's reviews completed in the first quarter of FY 2023-24. These reviews included one comprehensive review, one procurement card audit, two asset management audits and three follow-up reviews. UKIA also completed one consultation and closed another.

Trustee Swanson asked Mr. Reed if the Willed Body Program is still within an academic unit. Mr. Reed said yes and then invited Deputy Accountability Officer and Audit Executive Martin Anibaba, to provide additional information. Trustee Swanson asked for more detail regarding the program's oversight. Mr. Anibaba explained that the program no longer works with the Coroner's Office, has a new tracking database and will undergo periodic reviews to ensure total regulatory compliance.

The ACC had no additional questions.

B. FY 2022-23 Audited Financial Statements and Independent Audit Results

Chair Daniels introduced Mary McKinley, Lead Audit Partner at FORVIS. Ms. McKinley then introduced engagement Director Joanie Duckworth. Ms. McKinley said that FORVIS issued UK a clean, unmodified opinion for each financial statement of the entities they audited. This audit also included a review of audit results for the Kentucky Medical Services Foundation and Insure Blue. Another part of the audit that is underway is the Schedule of Expenditures of Federal Awards (SEFA).

Ms. McKinley explained that two major, new inclusions in the financial statements were the adoption of Governmental Accounting Standards Board (GASB) 96, Subscription-based Information Technology Arrangements as well as the membership substitution for UK to become the sole member and director of operations for King's Daughters Health. UK possesses a strong set of financial statements with a total of \$10.6 billion in assets and a net

position of about \$7.5 billion. Ms. McKinley said that completing the SEFA federal funds audit and helping with bond issuance are the next two tasks for the auditors.

Ms. Duckworth then explained that there were no significant policy changes to report as a result of the GASB 96 adoption, nor were there any unusual policies, methods or alternative accounting treatments to report. Regarding the “Management Judgements and Accounting Estimates” section of the FORVIS report, Ms. Duckworth explained that the addition of a defined benefit pension plan was the only new inclusion since the prior year. This inclusion was due to UK’s acquisition of Royal Blue Health LLC. This acquisition also required a new financial statement disclosure. Ms. Duckworth said that FORVIS had no reportable observations regarding UK’s accounting principles.

Returning to the adoption of GASB 96, Ms. Duckworth noted that financial statements reflected \$16.1 million for subscription-based Information Technology arrangements on July 1, 2022, the date of adoption. This increased to \$32 million by the end of the year largely due to the addition of Royal Blue Health LLC.

Ms. Duckworth then explained that the audit included no proposed adjustments nor any proposed adjustments that were not recorded.

Lastly, Ms. Duckworth explained that the only significant issues discussed with management were the membership substitution regarding Royal Blue Health LLC and the associated conversion of Royal Blue Health LLC reporting standards from the Financial Accounting Standards Board to GASB.

The ACC had no questions.

C. FY 2022-23 Agreed Upon Procedures

Chair Daniels introduced UK Treasurer Penny Cox. Ms. Cox began by noting that the university received an unmodified or “clean” opinion from FORVIS’ audit, with a strong balance sheet and a 29.2 percent net position increase from the prior year. Transitioning to the agreed upon procedures (AUPs) for the National Collegiate Athletic Association (NCAA), Ms. Cox said the NCAA requires an independent audit to verify the accuracy and completeness of the data prior to its submission to the NCAA. This audit reviews the university’s Statement of Revenue and Expenses. The AUPs were completed without exception, and the audit results will be shared with the University Athletics Committee in February 2024.

Ms. Cox then explained that the AUPs for Eastern State Hospital and Central Kentucky Recovery Center were agreed to by UK HealthCare and the Department of Behavioral Health, Development and Intellectual Disabilities. They were to verify the completeness and accuracy of the Budget to Actual statements of activity, amounts advanced to UK during FY 2022-23 and the amounts due to or from the commonwealth. The AUPs were completed without exception.

Lastly, Ms. Cox said the AUPs for the Kentucky Medical Services Foundation were agreed to by UK HealthCare and Kentucky Medical Services Foundation representatives to

assess compliance with terms in the agreement between these entities. The results of the AUP report are used by the management of both organizations to assist with contract monitoring. No items of concern were noted.

The ACC had no questions.

V. Adjournment

With no further business to come before the Committee, Chair Daniels adjourned the meeting at 2:20 p.m.

Respectfully Submitted,

Skylar Bensheimer
Editorial Assistant
UK Internal Audit