

Audit and Compliance Committee Meeting
Gatton Student Center, Harris Ballroom
Thursday, February 16, 2023

The Audit and Compliance Committee (ACC) of the University of Kentucky Board of Trustees met on Thursday, February 16, 2023 in the Gatton Student Center Harris Ballroom.

I. Call to Order

Chair Claude “Skip” Berry III called the meeting to order at 1:00 p.m.

II. Roll Call

The following members of the ACC were in attendance: Claude “Skip” Berry III, Thomas G. Abell, Cathy A. Black, Brenda Baker Gosney, Lance Lucas, Paula Leach Pope and Hollie Swanson.

III. Approval of Minutes – December 12, 2022

Chair Berry reported that the minutes of the December 12, 2022, meeting had been distributed. Trustee Abell motioned to approve the minutes, and Trustee Pope seconded. The motion carried without dissent.

IV. Reports and Discussion Items

A. FY 2022-23 Q1 and Q2 Metrics

Chair Berry introduced Chief Accountability Officer and Audit Executive Joe Reed to discuss UK Internal Audit’s metrics for the first and second quarters of FY 2022-23. Mr. Reed explained that UK Internal Audit (UKIA) measures its performance through six metrics divided into two categories, efficiency and effectiveness. Efficiency includes audit duration and productivity, while effectiveness is composed of audit coverage, consultations/partnerships, remediation and client satisfaction.

Mr. Reed then explained that the audit duration metric compares the hours UKIA expects to expend on audit activity for the year compared to the hours actually expended. For the first two quarters of FY 2022-23, UKIA was 11 percent over its projected hours on audit projects.

UKIA’s second metric is productivity. This metric assesses how staff spends their time. Hours are measured as “productive time,” or audit activity; “infrastructure,” which is composed of committees and task forces during which staff members communicate audit trends and provide guidance outside the regular reporting mechanisms of an audit, as well as other non-audit projects and initiatives; and “leave time,” which includes sick, vacation and holiday

leave. Managers reached an average of 50 percent productive time with a goal of at least 60 percent, while the audit staff averaged 56 percent productive time and has a goal of 75 percent. UKIA is developing remediation strategies to help ensure it meets these goals in the future.

Mr. Reed then noted that the audit coverage metric will be addressed later during the meeting in the Quarterly Activity Update and is not included in the metrics presentation.

Mr. Reed then transitioned to the consultations/partnerships metric. He explained that UKIA has a goal of two consultations/partnerships per quarter and had completed or was engaged in six as of the end of quarter two. These engagements are usually initiated at the request of the client with the aim of receiving guidance about improving certain business operations in their unit.

Moving on to the remediation metric, Mr. Reed explained that UKIA utilizes check-in meetings and follow-up reviews to gauge the progress clients have made in remediating concerns. The follow-up reviews include a remediation score based on the client's progress. Un-remediated concerns receive a zero out of three, partially remediated concerns receive a two out of three and fully remediated concerns receive a three out of three. The score is then totaled and converted to a percentage to give the client an overall remediation score. UKIA sets a remediation goal for units of 100 percent. Of the two follow-up reviews UKIA completed during the first two quarters of FY 2022-23, the units achieved remediation scores of 58 percent and one hundred percent, respectively.

Mr. Reed then presented the final metric, which was client satisfaction. This metric is based on results from the client satisfaction survey that UKIA distributes during the middle and end of each Fiscal Year. The survey asks clients to rate their satisfaction with different aspects of the audit engagement on a scale of one to five. Survey questions seek to get feedback regarding UKIA staff, the audit process, the audit report and the overall value-add to the client. UKIA received a score of 3.46 out of five, which exceeded its goal of three.

Mr. Reed then discussed UKIA's strategies regarding employee recruitment and retention. UKIA casts a wide net when advertising to assemble a staff with diverse backgrounds and skill sets. To accomplish this goal, UKIA utilizes inclusive selection criteria which do not require applicants to have previous auditing or accounting experience. The selection process is facilitated by a diverse committee of UKIA personnel and by a round table interview with UKIA staff.

Transitioning to employee retention, Mr. Reed explained that UKIA focuses on four areas: employee check-ins, open communication, employee recognition and team-building activities. The employee check-ins are one-on-one conversations between Mr. Reed and each employee to discuss what is working well and what could be improved within UKIA. Similarly, UKIA promotes open communication to ensure that management is transparent. Mr. Reed then noted that in FY 2021-22, UKIA implemented a formal employee recognition program to

highlight employee accolades. Lastly, UKIA personnel regularly engage in team-building exercises throughout the year.

At that time, Mr. Reed opened the floor for questions. Trustee Swanson asked Mr. Reed to discuss the key characteristics of successful applicants. Mr. Reed explained that applicants with 10 to 15 years of work experience have been successful. Additionally, applicants must be motivated to work on their own but also be skilled at working in a team.

B. UK Internal Audit and Audit and Compliance Committee Charter Revisions

Chair Berry then introduced Deputy Accountability Officer and Audit Executive Martin Anibaba to present proposed revisions to the charters for UKIA and the ACC. Mr. Anibaba began by providing an additional answer to Trustee Swanson's question regarding the traits of successful applicants. Mr. Anibaba explained that successful applicants have planning, organizational and communication skills as well as an ability to learn.

Moving on to the charter revisions, Mr. Anibaba opened by explaining that the Institute of Internal Auditors (IIA) requires the internal audit unit to retain its organizational independence. UKIA accomplishes this by reporting administratively to the president and functionally to the ACC. The IIA also requires a periodic review of the internal audit charter. For UKIA, this review determines whether revisions should be proposed based on changes in industry standards, the university environment, or UKIA's responsibilities.

Mr. Anibaba then transitioned to the proposed revision to the ACC charter. The proposed revision clarified the ACC's purpose by elaborating on the phrase "auditing functions" to include UKIA's assurance, accountability and advisory services. "Assurance" refers to standard audits, while "advisory" refers to consulting services performed at the request of the client. "Accountability" comprises the activity following an audit to assess remediation progress.

Mr. Anibaba then presented the proposed revisions to UKIA's charter. Similar to the ACC charter, for the "Purpose" section of the charter, UKIA proposed revisions that provide more detailed definitions of the accountability and advisory functions.

For the "Standards" section of the charter, UKIA again incorporated its assurance, accountability and advisory functions for consistency with the update to the ACC charter.

To achieve greater transparency, UKIA proposed updates to the "Responsibilities" section of its charter by requiring all final reports to be distributed to the ACC other than unsubstantiated inquiries, consultations and reports regarding activity that presents procedural infractions with minimal risk to the university. Additional revisions include an updated definition of the Accountability Office, as UKIA now possesses a unit dedicated to Accountability functions. Lastly, UKIA added an eighth item to the "Responsibilities" section which defines UKIA's advisory services. Mr. Anibaba then opened the floor for questions. Chair Berry commented that thorough charter revisions increase transparency and enable better communication with the committee.

C. FY 2022-23 Quarter 2 Activity Update

Chair Berry invited Mr. Reed back to the podium to present UKIA's Activity Update for the second quarter of FY 2022-23. Mr. Reed explained that UKIA's work prioritization is based on risk, which UKIA determines using its seven business risk factors: public exposure, external factors, materiality, audit interval, control environment I, control environment II and management requests.

Mr. Reed then discussed UKIA's reviews that were active from the beginning of October 2022 to the end of December 2022. UKIA was engaged in five comprehensive reviews, four of which were in the reporting phase of the audit. UKIA was also engaged in two year-round data analytics, two repetitive audits which were in the reporting phase, four follow-up reviews, five consultations and partnerships and four inquiries/investigations.

Mr. Reed transitioned to the reviews completed during quarter two of FY 2022-23. These included two repetitive audits, one inquiry, one assessment and one consultation. UKIA also closed four unsubstantiated inquiries and distributed a memo to management for one inquiry that identified weaknesses within a unit. The processes, units and applications reviewed are then compiled for the audit coverage metric to determine whether UKIA is meeting the needs outlined in its work prioritization. Five of nine processes, all four units and all three information system components listed in UKIA's work prioritization plan had been covered by at least one review as of the end of the second quarter. Mr. Reed then opened the floor for questions.

Chair Berry expressed the Committee's appreciation of UKIA's responsiveness and cooperation.

V. New Business Items

A. Execute Fiscal Year 2022-23 Audit Engagement Letter

Chair Berry introduced Treasurer Penny Cox to present the FY 2022-23 Audit Engagement Letter. Ms. Cox detailed her request to authorize the engagement letter with FORVIS for the FY 2022-23 external audit. Ms. Cox explained that FORVIS was chosen during a competitive bid process. FORVIS' initial term was for five years with four one-year renewal options, totaling nine possible years. Based on FORVIS' satisfactory service and the contract's fixed price component, Ms. Cox recommended exercising a one-year renewal. Ms. Cox estimated the fees to be approximately \$661,000 based on a three percent contractual increase as well as additional services related to Royal Blue Health. If authorized, the engagement letter will be brought before the ACC again during the April meeting. Ms. Cox then opened the floor for questions.

Trustee Swanson asked if another bid process is required if the university exercises the one-year renewal option. Ms. Cox replied that another bid process is not required and that the university can renew year-by-year up to FY 2024-25.

Chair Berry motioned to introduce Action Item 1: Execute Fiscal Year 2022-23 Audit Engagement Letter to be voted on by the committee. Trustee Swanson motioned, and Trustee Abell seconded. All Committee members were in favor.

VI. Adjournment

With no further business to come before the Committee, Chair Berry adjourned the meeting at 1:43 p.m.

Respectfully Submitted,

Skylar Bensheimer
Editorial Assistant
UK Internal Audit