

Meeting Minutes of the Audit and Compliance Committee
University of Kentucky
Monday, May 3, 2021

The Audit and Compliance Committee (ACC) of the University of Kentucky Board of Trustees met on Monday, May 3, 2021, via Zoom Webinar.

I. Call to Order

Chair Claude "Skip" Berry III called the meeting to order at 1:02 p.m.

II. Roll Call

The following members of the ACC were in attendance: Claude "Skip" Berry III, Joe R. Bowen, Michael A. Christian, Kimberly S. McCann, Elizabeth McCoy, Paula L. Pope, Sandra R. Shuffett and Bryan Sunderland.

III. Approval of Minutes

Chair Berry reported that the minutes of the February 18, 2021 ACC meeting had been distributed. Trustee McCoy moved for approval of the minutes, and Trustee McCann seconded the motion. The minutes from the February 18, 2021 ACC meeting were approved as presented.

IV. Reports and Discussion Items

A. UK Internal Audit Activity Update for Fiscal Year 2020-21 Quarter Three

Chair Berry introduced Joe Reed, chief accountability officer and audit executive to discuss UK Internal Audit's (UKIA) activity update for the third quarter of Fiscal Year 2020-21. Mr. Reed prefaced the report by stating that there would be no new items to discuss as new reviews are in the pre-planning stage and that previously completed projects would be excluded as well. Mr. Reed began by discussing UKIA's work prioritization plan which contained 24 components and continued with the global risk assessment which contained seven business risk factors with 20 components that are used to determine UKIA's priorities.

Mr. Reed then discussed UKIA's completed reviews, including one comprehensive review, one information technology review and one inquiry/investigation. Mr. Reed then went over the reviews that are currently underway, which included 11 inquiries and investigations, eight comprehensive reviews, one repetitive audit, one consultation, one data analytic and one follow-up review.

B. Cybersecurity Update

Chair Berry then introduced Analytics and Investigations Manager Marc Blevins, and Information Technology Audit Manager Wes Justice, to give an update on UKIA's cybersecurity reviews. Mr. Blevins began by discussing UKIA's information technology team structure and its recent changes. He then talked about the risks of insufficient cybersecurity practices and explained the cybersecurity standards by which UKIA abides. Mr. Blevins stated that cybersecurity is the process of limiting availability, maintaining data integrity and ensuring confidentiality. This protects student records, patient records, financial data, Human Resources data, research data and information technology infrastructure.

Mr. Blevins continued by saying that this is an important topic due to the increase in cybersecurity events, including recent activity at the university. Mr. Blevins then introduced Wes Justice who began by saying that cybersecurity is "everyone's job." He then shared that more than 20 virtual cybersecurity information tour sessions were conducted between October and November of 2020 to increase awareness of recent cybersecurity events. Mr. Justice continued by introducing UKIA's new unannounced cybersecurity reviews and follow-up reviews which are completed approximately 90 days later.

Trustee McCoy asked if there was any employee-wide training related to cybersecurity. Mr. Blevins referred her to the process owners for more information as such training varies. Trustee McCoy also asked if UKIA makes recommendations to the units to bring value. Mr. Blevins answered by stating that UKIA works closely with each unit to bring value-added recommendations specific to their needs. Cecilia Page, chief information officer with UK HealthCare, also added that UK HealthCare has a mandatory web-based training that its employees must complete on an annual basis that addresses some cybersecurity events. Brian Nichols, chief information officer for the university then explained that the same is offered on the university side.

C. UKIA Protocol for Auditee Acceptance of Risks

Chair Berry then introduced Martin Anibaba, audit director, to share UKIA's protocols for auditee acceptance of risks. Mr. Anibaba began by discussing the risk evaluation process which starts with criteria, then goes to evaluation, mitigation and follow-up. He explained that UKIA's risk-related standards come from the Institute of Internal Auditors International Professional Practices Framework. He then reviewed UK's six enterprise risk categories versus UKIA's seven business risk factors. Mr. Anibaba introduced the three-lines of defense model utilized by UKIA, with the first tier being operations within each unit, the second tier being the process owners and the third tier being the auditing function. He then discussed UKIA's risk protocol methods, which include collaboration with process owners, check-ins with audit clients and follow-up reviews within 12-18 months. Next, Mr. Anibaba introduced the industry risk management model, SARA, which consists of Sharing, Avoidance of risk, Reduction of risk and Acceptance of risk, pointing out that acceptance of risk equals non-remediation or non-mitigation. Mr. Anibaba explained that this is extremely rare, but that when this does occur, it is escalated to the

appropriate stakeholders and the ACC. Finally, Mr. Anibaba discussed UKIA's remediation metric and the related computation process to determine how well UKIA findings are remediated.

D. Executed Fiscal Year 2020-21 Audit Engagement Letter and Agreed-Upon Procedures Letters for the NCAA, ESH/CKRC, and KMSF

Chair Berry introduced Penny Cox, treasurer, to present the Executed Fiscal Year 2020-21 Audit Engagement Letter. Ms. Cox began by saying that the audit would include a financial statement audit for the university and three organizational units of the University – UK HealthCare Hospital Systems, Kentucky Tobacco Research and Development Center, and WUKY-FM Radio and its affiliated corporations, which include Central Kentucky Management Services, Inc., UK Center on Aging Foundation, Inc., UK Gluck Equine Research Foundation, Inc., UK Humanities Foundation, Inc., UK Mining Engineering Inc. and the UK Research Foundation. Ms. Cox explained that all of these statements are done in accordance with the generally accepted accounting standards and applicable financial audits of government entities.

E. BKD Pre-Audit Report to the Audit and Compliance Committee

Chair Berry then introduced Mary McKinley, partner, and Joanie Duckworth, director, of Baird, Kurtz and Dobson (BKD) to present the pre-audit report. Ms. McKinley began by discussing the auditor's responsibilities, audit services and identified risk areas. She highlighted specific areas that included compliance with uniform guidance, recording and disclosure, Royal Blue Health and the implementation of the new Epic electronic health record system. Ms. McKinley then introduced Ms. Duckworth to discuss the timeline of the audit in accordance with the Commonwealth of Kentucky reporting deadline. Ms. Duckworth concluded by discussing new accounting pronouncements and consideration of errors or fraud.

V. Adjournment

With no further business to come before the Committee, the meeting was adjourned at 1:58 p.m.

Respectfully Submitted,

Alan Wood
Assistant Editor
UK Internal Audit